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COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN RELATIONS,
COMMITTEE ON FINANCE
OF THE
U.S. SENATE
AND THE
COMMITTEE ON FOREIGN AFFAIRS,
COMMITTEE ON WAYS AND MEANS
OF THE
U.S. HOUSE OF REPRESENTATIVES
BY THE
DEPARTMENT OF STATE

IN ACCORDANCE WITH SECTION 2202 OF THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988

FEBRUARY 1990

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FOREWORD

The reports on individual country economic policy and trade practices contained herein were prepared by the Department of State in accordance with section 2202 of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418).

Modeled on the State Department's annual reports on individual country human rights practices, the reports are intended to provide a single, comprehensive and comparative analysis of the economic policies and trade practices of each country with which the United States has an economic or trade relationship. Because of the increasing importance and interest in trade and economic issues, these reports are printed to assist members in considering legislation in the areas of trade and economic policy.

CLAIBORNE PELL,
Chairman, Committee on Foreign Relations,
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Chairman, Committee on Finance.
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Chairman, Committee on Foreign Affairs.
DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means.

LETTER OF TRANSMITTAL

DEPARTMENT OF STATE,
Washington, DC, February 12, 1990.

Hon. CLAIBORNE PELL,
Chairman, Committee on Foreign Relations.

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance.

Hon. J. DANFORTH QUAYLE,
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Chairman, Committee on Foreign Affairs.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means.

DEAR SIRS: I have the distinct honor to present the report prepared in compliance with section 2202 of the Omnibus Trade and Competitiveness Act of 1988.

Sincerely,

JANET G. MULLINS,
Assistant Secretary, Legislative Affairs.

Enclosure.

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COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES FOR 1989

INTRODUCTION

The Department of State is submitting to the Congress its Country Reports on Economic Policy and Trade Practices, in compliance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988. The legislation instructs the Department to prepare a detailed report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship: we have done so. In addition, we have included reports on a few other countries that may be of interest to readers despite a relatively small level of economic involvement with the United States.

There is more ferment and creativity in the trade policy arena, at home and abroad, than at any time in the post-war era. For the second year, our Embassies report that many of our trading partners continue to make progress in opening markets to U.S. exports of goods and services and in providing protection for intellectual property. Over the past year, many countries, most dramatically in Eastern Europe, have demonstrated a new appreciation of the power of the market to allocate resources rationally and equitably.

The reports have been compiled from information supplied by U.S. Embassies overseas, amplified by analysis and review within the Department of State and in consultation with other U.S. Government agencies. The reports are intended primarily as general guides to economic conditions in a specific country. While we have attempted to standardize the reports, they are necessarily heterogeneous, reflecting wide differences in availability of data. In some countries, the U.S. has no formal representation. In other cases, access to reliable information is limited. Nevertheless, all the country reports incorporate the best information available.

Each country report is divided into nine sections.

- Key Economic Indicators: The report begins with a chart showing data for key economic indicators in the national income, monetary, and trade accounts.
- General Policy Framework: The first narrative section is a general sketch of macroeconomic trends.
- Exchange Rate Policies: The second section outlines exchange rate policies, particularly with respect to their impact on price competitiveness of U.S. exports.
- Structural Policies: The third section on structural policies also emphasizes those changes with might affect U.S. exports to that country.

- Debt Management Policies: The fourth section describes debt management policies and implications for trade with the United States.
- Significant Barriers to U.S. Exports and Investment: The fifth section addresses significant barriers to U.S. exports and investment.
- Export Subsidies Policies: The sixth notes any government acts, policies, and practices that provide support for exports from that country, including exports by small businesses.
- Protection of U.S. Intellectual Property: The seventh section discusses the country's laws and practices with respect to protection for intellectual property.
- Worker Rights: The eighth and final section has three parts.
    - The first part outlines in general the country's laws and practices with respect to internationally recognized worker rights.
    - The second part (subsection f.) highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested.
    - Finally, a table cites the extent of such investment by sector where information is available.

We believe that this second annual report builds on the strong foundation of the report submitted in January 1989. The Department of State considers the report to be an important contribution toward our goal of insuring that strong and effective U.S. Government trade policies are based on the best possible understanding of the economic trends in countries around the world.

Eugene J. McAllister
Assistant Secretary of State
for Economic and Business Affairs

TEXT OF SECTION 2202 OF THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988

> "The Secretary of State shall, not later than January 31 of each year, prepare and transmit to the Committee on Foreign Affairs and the Committee on Ways and Means of the House of Representatives, to the Committee on Foreign Relations and the Committee on Finance of the Senate, and to other appropriate committees of the Congress, a detailed report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship. The Secretary may direct the appropriate officers of the Department of State who are serving overseas, in consultation with appropriate officers or employees of other departments and agencies of the United States, including the Department of Agriculture and the Department of Commerce, to coordinate the preparation of such information in a country as is necessary to prepare the report under this section. The report shall identify and describe, with respect to each country:

1. The macroeconomic policies of the country and their impact on the overall growth in demand for United States exports;

2. The impact of macroeconomic and other policies on the exchange rate of the country and the resulting impact on price competitiveness of United States exports;

3. Any change in structural policies [including tax incentives, regulation governing financial institutions, production standards, and patterns of industrial ownership] that may affect the country's growth rate and its demand for United States exports;

4. The management of the country's external debt and its implications for trade with the United States;

5. Acts, policies, and practices that constitute significant trade barriers to United States exports or foreign direct investment in that country by United States persons, as identified under section 181(a)(1) of the Trade Act of 1974 (19 U.S.C. 2241(a)(1));

6. Acts, policies, and practices that provide direct or indirect government support for exports from that country, including exports by small businesses;

7. The extent to which the country's laws and enforcement of those laws afford adequate protection to United States intellectual property, including patents, trademarks, copyrights, and mask works; and

8. The country's laws, enforcement of those laws, and practices with respect to internationally recognized worker rights (as defined in section 502(a)(4) of the Trade Act of 1974), the conditions of worker rights in any sector which produces goods in which United States capital is invested, and the extent of such investment."

Notes on Preparation of the Reports

Subsections a. through e. of the Worker Rights chapter (section eight) are abridged versions of the sections 6 in the *Country Reports on Human Rights Practices for 1989*, submitted to the Committees on Foreign Affairs of the House of Representatives and on Foreign Relations of the U.S. Senate on January 31, 1990. For a comprehensive discussion of worker rights in each country please refer to that report.

The second part (subsection f.) highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested. A table cites the extent of such investment by sector where information is available. The Bureau of Economic Analysis of the U.S. Department of Commerce has supplied information on the U.S. direct investment position at the end of 1988 for all countries for which foreign direct investment has been reported to it. This information for 1988--the most recent figures available--was published for selected countries in the August 1989 issue of *Survey of Current Business*. Readers should note that "U.S. Direct Position Abroad" is defined as "the net book value of U.S. parent companies' equity in, and net outstanding loans to, their foreign affiliates" (foreign business enterprises owned 10 percent or more by U.S. persons or companies). The table does not necessarily indicate total assets held in each country. In some instances, the narrative refers to investments for which figures may not appear in the table.

Some Frequently-Used Acronyms

ADB - Asian Development Bank
BDV - Brussels Definition of Value
BIS - Bank for International Settlements
CACM - Central American Common Market
CARICOM - Caribbean Common Market
CAP - Common Agricultural Policy (of the European Communities)
CCC - Commodity Credit Corporation (Department of Agriculture)
COMECOM - Council for Mutual Economic Assistance
EC - European Communities
EFTA - European Free Trade Association
EMS - European Monetary Scheme (of the EC)
EXIMBANK - U.S. Export-Import Bank
FOREX - Foreign Exchange
GATT - General Agreement on Trade and Tariffs
GDP - Gross Domestic Product
GNP - Gross National Product
IBRD - International Bank for Reconstruction and Development
ILO - International Labor Organization (of the U.N.)
IMF - International Monetary Fund
IPR - Intellectual Property Rights
LIBOR - London Interbank Offer Rate
NNI - Net National Income
OECD - Organization for Economic Cooperation and Development
OPIC - U.S. Overseas Private Investment Corporation
PTT - Posts, Telegraph and Telephone
SAP - Structural Adjustment Program (of the IMF/World Bank)
SDR - Special Drawing Rights (of the IMF)
UR - Uruguay Round of current trade negotiations in the GATT
VAT - Value-added tax
WIPO - World Intellectual Property Organization

ANGOLA

Key Economic Indicators

(Millions of U.S. dollars or kwanza (Kz) as noted)

	1987	1988	1989
Income, Production, and Employment 1/			
Real GDP	n/a	n/a	n/a
GDP growth rate	n/a	n/a	n/a
GDP by sector	n/a	n/a	n/a
Income per capita	n/a	n/a	n/a
Size of labor force	n/a	n/a	n/a
Unemployment rate	n/a	n/a	n/a
Money and Prices			
Money supply (M1)	n/a	n/a	n/a
Commercial interest rates	n/a	n/a	n/a
Savings rate	n/a	n/a	n/a
Investment rate	n/a	n/a	n/a
Consumer price index	n/a	n/a	n/a
Wholesale price index	n/a	n/a	n/a
Exchange rates (Kz/US$)			
Official	29.92	29.92	29.92
Parallel	n/a	2,000	3,500
Balance of Payments and Trade (mils $)			
Total Exports FOB	2,300.0	1.736.7	n/a
Exports to U.S. CIF	1,372.1	1,343.1	n/a
Total Imports FOB	1,275.0	1,324.2	n/a
Imports from U.S. FAS	94.6	101.0	n/a
Aid from the U.S. 2/	10.5	9.3	7.7
Aid from other countries	n/a	n/a	n/a
External public debt	n/a	n/a	n/a
Annual debt service payments	n/a	n/a	n/a
International reserves	n/a	n/a	n/a
Balance of payments on current account	448	n/a	n/a

1/Angola's fiscal year is October 1 - September 30.

2/ U.S. assistance takes the form of PL-480 (Food for Peace) earmarked funds to the ICRC and UNHCR for refugee relief and private voluntary agency administered disaster assistance.

1. General Policy Framework

The People's Republic of Angola (PRA) potentially could be one of Africa's richest countries. Relatively unpopulated, it has large hydrocarbon and mineral resources, huge hydroelectric potential, and ample arable land. Civil and foreign war since independence in 1975 have wreaked havoc on the country, and prevented Angola from realizing this potential. A severe lack of managerial, administrative, and technical talent has hampered economic performance, and misguided and ineffective attempts at collectivist economic planning and centralized decision-making have further precluded development. Only the oil sector, run jointly by foreign multinationals and Angola's oil monopoly, SONANGOL, has remained well-managed and prosperous. Accounting for around 90 percent of exports and 80 percent of budget revenues, oil has kept the rest of the economy barely afloat.

Splintered by war and severe infrastructural deterioration, Angola possesses a number of mini-economies. Urban populations, swollen by refugees and isolated from their natural hinterlands, subsist wholly or partly on foreign food aid or depend heavily on extensive black markets based on barter and illegal currency dealings. The bulk of the population lives in the bush, often in marginal security and barely existing by subsistence farming. Extensive administrative chaos and corruption tend to vitiate reform and normal economic activity, and usual economic indices have little relevance. Around half of Angola's foreign exchange, 40 percent of its budget, and an inordinate proportion of the country's energy and talent are being expended on the war effort.

The Government budget is perpetually in deficit from the heavy military burden. The deficit's magnitude depends on the fortunes of the oil sector. In addition, ailing state enterprises are supported through heavy subsidies and credit facilities. The deficit is financed by the printing press, increasing the money supply without corresponding improvement in the supply of goods and services. Shortages, artificial price controls, and erosion of confidence in the national currency have encouraged black markets and led to widespread dependence on barter.

Despite pronouncements by the Marxist-Leninist single-party Government regarding its intentions to restructure the economy more along market lines, little progress is apparent. The Government announced in 1988 an Economic and Financial Reorganization Plan (SEF) which was to feature new rigor in financial management, the opening of certain sectors to private enterprise (e.g., legalization of illicit parallel market activities), semi-privatization of commerce and agriculture, restructuring of the largest state-operated enterprises (SOEs), liberalization of foreign investment, and devaluation. Several basic laws have been published and a few price controls have been eliminated. A major reform experiment is proceeding well in southwest Angola. In most of the country, however, reforms have yet to be promulgated or effectively implemented, and the non-oil economy remains moribund. In any case, economic reconstruction and revival will depend on an end to the civil war.

The Government claims to welcome foreign trade and investment and eagerly is seeking Western participation in development projects. Barriers to U.S. exports and capital lie not so much in deliberate government policies as in the regime's sheer ineffectiveness and incapacity, as well as in the continued hazards of war. The oil sector, the only one run in a reasonably systematic and straightforward manner and fairly isolated from battle, is the focus of U.S.-Angolan trade and U.S. investment. The United States buys about half of Angola's oil exports, while equipment for the sector accounts for the bulk of U.S. sales to Angola. The ongoing war continues to limit overall opportunities and impose high risks on potential investors. U.S. oil companies have been selling substantial stakes in their Angolan operations to other multinationals. Given the country's huge potential, peace and genuine economic liberalization could provide substantial opportunities for U.S. trade with and investment in Angola.

2. Exchange Rate Policies

Since 1978, the Government has maintained the official exchange rate for the kwanza (kz), a nonconvertible currency, at 29.918/$1.00. All legal foreign exchange transactions are handled by the Banco Nacional de Angola. Foreign exchange is carefully budgeted on an annual basis and allocated quarterly by quota. The rate on the parallel market can be as much as 120 times the official one, i.e., up to 3,500 kz/$1.00 in 1988. In much of the country, barter is common for consumer transactions.

3. Structural Policies

Price controls are pervasive, but often meaningless when something is unavailable or found only on the black market. Basic commodities are rationed at officially fixed prices, and prices of many other important goods and services also are fixed. Price ceilings apply to many other products. Minimum purchase prices are established for most agricultural and livestock products and fixed commercial margins are set at various stages of transport and trading. The system is inefficient and incoherent, causing extreme price distortions.

Stringent import and foreign exchange controls, rather than pricing, form by far the greatest deterrents to imports. For some time, the regime reportedly has been planning to deregulate most prices. The first concrete step was taken in 1988 when price controls on 52 fruits and vegetables were eliminated. Deregulation will have to be accompanied by heavy devaluation of the kwanza, which the Government has announced it will pursue in stages, beginning in 1990.

The Government has moved slowly in carrying out its announced economic reforms. In 1988, basic laws on privatization, management of state enterprises, and the role of private investment were published. Removal of price controls on some fruits and vegetables in effect legalized their parallel market prices. Guidelines for sale or liquidation of some SOEs reportedly are being drafted and a new office is being set up to coordinate foreign investment. However, except in one region in the southwest which has been allowed full autonomy to enact economic reforms, the country basically has not yet felt the winds of change.

4. Debt Management Policies

The Government began substantial foreign borrowing only in the early 1980s, principally to finance large oil sector investments. Prior to the 1986 slump in international oil prices, the Government scrupulously met its foreign debt commitments, even those contracted prior to independence. Subsequently, however, large payment arrears accumulated ($378 million by the end of 1986), and major Western export credit agencies suspended cover to the country. Angola's foreign debt probably reached more than $5 billion by the end of 1988. A substantial part of the debt is owed to the Soviet Union for military purchases used to pursue the 14-year old civil war against UNITA.

The Government's recent economic and financial strategy relies heavily on debt rescheduling. In 1987, the PRA concluded bilateral agreements with Brazil, Portugal, and the Soviet Union. However, an attempt to reschedule other official and commercial debts outside the Paris Club and without reference to the International Monetary Fund (IMF) did not succeed. In 1988, Angola concluded bilateral rescheduling agreements with France and Italy, and some major export credit agencies resumed cover to the country. In 1989, the PRA obtained membership in the IMF and World Bank, the prerequisite for a general rescheduling.

5. Significant Barriers to U.S. Exports and Investment

The United States does not recognize or maintain diplomatic relations with the People's Republic of Angola (PRA) and has no diplomatic personnel there to evaluate economic and trade conditions.

The potential for U.S. exports to Angola is constrained by certain U.S. laws or policies which prohibit the following:

- the sale of dual use items, such as aircraft;
- extension of Export-Import Bank (EXIM) cover; or
- utilization by U.S. investors in Angola of tax credits or deferments.

Since the sharp decline of its coffee and diamond sectors, Angola's ability to import has depended almost entirely on oil earnings. When oil export growth halted in 1981-82, stringent import curbs were imposed. After some easing in 1984-85, they were re-imposed after 1986's oil price slump.

ANGOLA

All imports require a license. An annual foreign exchange budget is implemented on a quarterly basis with individual quotas allocated to ministries and state, mixed, and private companies. The quotas are strictly enforced. Company applications are assessed in terms of overall ministerial quotas. Documentary requirements can be burdensome. Equipment for the oil industry, food, agricultural inputs, and consumer goods for rural marketing campaigns receive the highest priority for civilian imports, but military equipment probably accounts for about half of total purchases. In recent years, the Government has relied on foreign food aid for a substantial proportion (at least half in 1989) of foodstuff imports.

A large part of the country's imports are handled by state trading companies. Except for foreign companies' shares of oil production, most exports are handled by state agencies. Countertrade deals (involving exchanging oil for imports of goods and services) have been signed with Brazil and Portugal.

Foreign investment is very large in the oil sector and significant in many other areas of the economy. However, a 1979 law bans foreign investment in defense, public services, finance and credit, insurance, foreign trade, and the media.

6. Export Subsidies Policies

No export subsidy schemes currently exist, although among the measures proposed (but not yet implemented) in the Government's economic reform package was a foreign exchange retention scheme as an incentive for non-oil export industries.

7. Protection of U.S. Intellectual Property

The PRA joined the World Intellectual Property Organization (WIPO) in 1985, but has not adhered to any of the principal conventions on intellectual property. There is no known domestic legislation on intellectual property rights. U.S. industry has not flagged any specific problems regarding intellectual property.

8. Worker Rights *

a. The Right of Association

Angolan workers do not have the right to form independent trade unions. The sole legally recognized trade union organization in Angola is the National Union of Angolan Workers (UNTA), which was formed in the late 1950s as an appendage of the Popular Movement for the Liberation of Angola (MPLA) and became the ruling party's official labor wing after independence. UNTA's monopoly is ensured by the statutory basis of the single-union structure. Strikes are illegal and considered a crime against "state security." The UNTA is affiliated with the Organization of African Trade Union Unity and the Communist-controlled World Federation of Trade Unions.

ANGOLA

b. The Right to Organize and Bargain Collectively

Workers do not have the right to bargain collectively. The Minister of Labor and Social Security controls the setting of wages and benefits, coordinating with UNTA and employers. There are no export processing zones. As far as is known, labor legislation is applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

Existing legislation authorizes compulsory labor for breaches of labor discipline and participation in strikes. On the basis of this legislation, the PRA was cited by the ILO in 1984 for being in violation of ILO Convention 105, which prohibits forced labor. The 1988 report of the ILO Committee of Experts indicated that the cited legislation remained in force and had not been brought into conformity with ILO Convention 105, which Angola ratified in 1976.

d. Minimum Age for Employment of Children

There is no information available on this subject.

e. Acceptable Conditions of Work

There is no information available on this subject.

f. Rights in Sectors with U.S. Investment

U.S. investment in Angola is located in the petroleum industry. There is no specific information available regarding the conditions for workers in this sector.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		101
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

ANGOLA

* Section 8 is an abridged version of Section 6 of the Angola country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

COTE D'IVOIRE

Key Economic Indicators

(Millions U.S. dollars ($) or Ivorian francs (CFAfr) as noted)

	1987	1988	1989
Income, Production, and Employment			
Real GDP (millions US$	10375	9990	n/a
Real GDP growth rate (pct)	-1.6	-6.4	n/a
GDP by sector			
Primary	-29.3	31.2	n/a
Secondary	19.9	18.4	n/a
Tertiary	26.1	24.1	n/a
Other (including govt)	24.8	16.2	n/a
Real per capita income	750	680	n/a
Size of labor force	n/a	n/a	n/a
Unemployment rate	n/a	n/a	n/a
Money and Prices			
Money supply (annual chg in pct)			
End prev period money stock	-1.4	0.2 e/	-3.0 e/
Commercial interest rates (pct)	6.5	7.0	7.5 e/
Savings rate (pct)	15.8	14.9 e/	11.3 e/
Investment rate (pct)	11.7	15.3 e/	7.4 e/
Consumer price index (annual pct chg)	5.3	7.5 e/	1.0 e/
Wholesale price index	n/a	n/a	n/a
Exchange rate (period avg((CFA/$)	301	298	n/a
Balance of Payments and Trade			
Total exports FOB	2791.9	2105.2	n/a
Exports to U.S.	404.0	313.4	n/a
Total imports CIF	1664.0	1304.8	n/a
Imports from U.S. FAS	83.9	75.1	n/a
Aid from U.S. (all forms)	15.5	13.0	n/a
Aid from other countries	230.4	n/a	n/a
External public debt (pct GDP)	92.8	92.5 e/	100.8 e/
Debt service payments (paid)	n/a	n/a	n/a
Gold & forex reserves (current acct)	n/a	n/a	n/a
Balance of payments	-499	-1086	n/a

e/ estimate

Sources: International Monetary Fund (IMF), World Bank, Government of Cote d'Ivoire, U.S. Agency for International Development, U.S. Department of Commerce.

1. General Policy Framework

In the late 1970s the Cote d'Ivoire, like many countries, resorted to foreign borrowing to finance ambitious investment programs when export earnings were severely limited by the end of the commodity price boom and the second oil shock. Foreign borrowing needs were inflated when public sector enterprises, developed as an integral part of the investment program, generated ballooning deficits rather than revenues. By 1980, the Government of Cote d'Ivoire was in financial trouble and turned to the International Monetary Fund (IMF) for assistance. IMF programs have been in place on and off during the subsequent period, supplemented since 1981 by World Bank structural adjustment loans. Ivorian economic policies throughout the decade have been pursued the twin objectives of austerity and structural reform.

Government budgets, therefore, have been generally restrictive, with total public sector spending rising only about 4.5 percent in the five years ending in 1987. However, budget deficits have increased as revenues have dropped in the 1980s. Civil service salaries, which represent a large proportion of total recurrent expenditure, and the minimum non-agricultural wage have been frozen since 1982, although promotions were unblocked in 1986. The retail prices of key consumer items were raised to eliminate subsidies, fringe benefits for teachers and other civil servants were reduced, and the number of entrants into civil service was limited. Most dramatically, investment spending was cut and limited to those projects for which financing appears assured, bringing the investment/GDP ratio from 25 percent at the beginning of the decade to about 12 percent in 1987, which in turn has severely impeded future growth prospects.

Together with decade-long austerity in public sector spending, primarily in investment outlays, the Government has worked with the World Bank to implement structural adjustment measures. It has privatized some public sector investments and attempts to improve the management of remaining public sector enterprises. In addition, it is working to harmonize tariffs around a level of 40 percent, and has implemented an import surcharge/export subsidy scheme, which may compensate slightly for the Government's inability, as a member of the West African Monetary Union, to adjust the exchange rate

To fill the large gap estimated for 1989-1990, the Government has negotiated a new IMF financial rescue package, which will be associated with six World Bank sectoral and project loans. In addition, the Government in October called on the "friends of Cote d'Ivoire"--a group of Western donor nations--in order to round up further financing totalling $350 million. A new London Club agreement has not yet materialized. It should be noted that the previous London Club rescue package, negotiated in 1988, was never implemented as a new decline in cocoa prices and other developments undermined the assumptions on which the plan was based.

As part of its own contribution to resolving its financial difficulties, the Government adopted several new tax measures in 1987, including an extension of the value-added tax (VAT) to the retail trade sector, an increase and extension of import duties, and increased levies on patents, licenses, tobacco, pleasure boats, etc. In August 1989, to stem fiscal hemorrhaging, the Government lowered the price it pays its farmers for coffee and cocoa. It also reduced the number of exemptions to import duties, and imposed a special 10 percent duty and a 2 percent "statistical tax" on virtually all imports.

2. Exchange Rate Policies

Cote d'Ivoire is a member of the West African Monetary Union, whose common currency, the CFA franc, is pegged at 50 to the French franc. It is freely convertible and capital and profits may be freely repatriated. Although devaluation rumors circulate periodically, the Ivorian Government (and France) remain committed to maintaining the French franc/CFA at its present level.

3. Structural Policies

An agency of the Commerce Ministry regulates prices. A few products (rice, bread, gasoline, and cement) have fixed prices. Other products (mostly food) have prices approved by the Government. Most imports are assigned percentage margins of profit. The importer must prove his supply cost, on which the Government allows a certain mark up, depending on the type of product.

Foreign owned firms and local business enterprises are nominally subject to the same taxes, surcharges, and contributions with only slight variance, although enforcement may be inconsistent. Withholding taxes are imposed on dividends, retained earnings, interest, licensing, technical service and management fees, and other revenues paid to a non-resident.

Imports are limited and prices are fixed on some imported products such as rice, wheat, palm oil, and petroleum. The domestic petroleum product distribution industry is heavily regulated, but these regulations control the way business is done, not who does the business. U.S. oil companies have large investments and operations in Cote d'Ivoire.

Cote d'Ivoire has long encouraged foreign investment but the Ivorian cost structure is high, effectively discouraging much investment. The 1984 Investment Code added further incentives. The major incentive features are for companies which invest in agriculture, stock raising and fishing, storage and treatment of agricultural and food products, low-cost housing construction, extractive industries, power production, and manufacturing and assembling. These incentives include customs duty exemptions on materials and equipment necessary to the investment, if such materials and equipment cannot be purchased in Cote d'Ivoire at a competitive price; tax exemptions, generally for a period of five years, with taxes phased in beginning in the fourth year, for business income tax, license taxes, and real estate taxes; and a partial exemption from the value-added tax. The 1984

Code extended many of the incentives to small and medium-sized companies. Cote d'Ivoire subscribes to the UNCTAD shipping code, but has agreed to allow U.S. shipping access to the 20 percent of bilateral trade not reserved for Ivorian or other LDC fleets.

4. Debt Management Policies

Faced with a widening public sector deficit, the Cote d'Ivoire called a moratorium on its foreign debt payments in late May 1987. Recognizing that the Government's financing problems were largely due to external factors, i.e., the decline in commodity prices, and that Cote d'Ivoire was continuing to pursue austerity and structural adjustment policies, the Paris Club agreed to a new rescheduling of Ivorian debt in December 1987, its fourth. Under the new rescheduling, 100 percent of principal and 95 percent of interest payments were rescheduled over 10 years with six-years' grace.

The London Club Agreement initialled in April 1988 would have provided for the rescheduling of the entire stock of principal due through 1995 over a period of 14 years with 5.5 years grace, and also would have extended CFA 43 billion ($140 million) in new money. Unfortunately, in reflection of persistent financing difficulties, the Government did not make its initial payment under the new agreement of around $50 million in interest and the agreement was not implemented. A new Paris Club Agreement consolidating debt service payments due from January 1, 1990 through April 1991 and arrears as of December 31, 1989 was negotiated in December 1989 and signed.

5. Significant Barriers to U.S. Imports and Investment

Most import license requirements were removed in 1987. Some remain, however, for certain food and electronic imports. Although customs restrictions and regulations have been reduced over the past few years, procedures are still burdensome. Businessmen report that customs enforcement is often inconsistent. Advertising and import insurance are limited to Ivorian nationals or companies, while local representation may be required in the building professions on nongovernment contracts.

6. Export Subsidies Policies

Export subsidies are available to food processing, textiles and clothing, wood processing and other manufacturing industries. The subsidy is intended to offset the negative impact of import protection on export competitiveness and is calculated as the equivalent of the import taxes paid in the value added of the product.

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7. Protection of U.S. Intellectual Property

Cote d'Ivoire is party to the Paris Convention for the Protection of Industrial Property and its 1958 Lisbon revision and to the Berne Copyright Convention.

In 1962, Ivory Coast, along with most francophone African countries, adopted uniform legislation for granting patents and registering trademarks. Under the common provisions, a request for patents, trademarks, or other industrial property is filed in or from one member country. If registration is approved by the African Intellectual Property Office (OAPI), it is valid for all member countries. The validity period is twenty years from the date of filing. Trademark registrations may be renewed indefinitely. Validity of a patent requires that an annual fee be paid.

Cote d'Ivoire's civil code prohibits unfair competition including trademark imitation or infringement. Nevertheless, some counterfeit cassettes and clothing appear in the local markets. Textile producers complain of pirate copies of their designs arriving from other West African countries.

8. Worker Rights *

a. The Right of Association

Workers have the right to form unions, but almost all unions are organized within a single government-sponsored labor confederation, the General Union of Cote d'Ivoire Workers (UGTCI). The right to strike is protected by statute, but in practice strikes are rarely authorized by the UGTCI. Generally, the Government negotiates with strikers and resolves at least some of their economic grievances. Unions, trade associations, and professional bodies are permitted to maintain relations with recognized international professional bodies in their fields. The UGTCI is a member of the continent-wide Organization of African Trade Union Unity. Cote d'Ivoire is a member of the ILO.

b. The Right to Organize and Bargain Collectively

Workers, in theory, have the right to organize and bargain collectively, but in practice strikes are discouraged. The Government favors tripartite dialogue between the union, government, and management. There are no export processing zones in Cote d'Ivoire, and labor legislation is applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited.

d. Minimum Age of Employment for Children

Children under 16 are not allowed to work, although in the informal sector this prohibition is not always enforced.

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e. Acceptable Conditions of Work

The Government wnforces a comprehensive labor code, which meet international norms in the formal sector; conditions vary widely in the informal sector. Minimum wages vary according to occupation and wage levels increase with experience and skill. Government medical insurance and retirement programs benefit salaried employees in the modern sector.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in the petroleum, food and related products, chemicals and related products, electric and electronic equipment, other manufacturing, and wholesale trade sectors. Worker rights are generally the same in all formal goods producing sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		29
Total Manufacturing		12
Food & Kindred Products	0	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Cote d'Ivoire country report included in the Department of State's Country Reports on Human Rights Practices for 1990, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

GHANA

Key Economic Indicators

(Millions of cedis unless otherwise stated)

	1987	1988	1989 (est)
Income, Production, and Employment			
GDP at current prices	742,800	1,057,868	n/a
GDP at current prices (pct chg)	4.5	6.2	n/a
Per capita GDP (current $) 1/	350	362	372
Cocoa (000 mt) 2/	183	305	n/a
Gold (000 troy ounces)	328	392.9	n/a
Diamonds (000 carats)	464.8	244.8	n/a
Manganese (000 mt)	295.1	252.3	n/a
Bauxite (000 mt)	299.4	299.3	n/a
Aluminum (000 mt)	150.3	160.8	n/a
Size of labor force (000)	6,477	n/a	n/a
Unemployment rate (pct) 3/	1.9	n/a	n/a
Money and Prices			
Money supply	132,300	189,186.7	n/a
Commercial lending rate (pct yr-end)	26.0	26.0	26.0
Savings growth rate (pct)	5.8	6.5	6.7
Investment growth rate (pct) 4/	4.7	n/a	n/a
Consumer price index (1980=100)	1,583.3	2,079.7	n/a
Wholesale price index	231.2	n/a	n/a
Exchange rates (cedi/$) 5/			
Official average	147.1	202.5	n/a
Foreign exchange bureau 6/	n/a	305-320	310-350
Parallel	n/a	n/a	n/a
Balance of Payments and Trade (mils $)			
Total exports FOB	824.1	881.0	n/a
Exports to U.S. CIF	259.6	209.6	n/a
Total imports FOB	933.8	991.4	n/a
Aid disbursements 7/	443.0	487.3	568.0
Aid from U.S.	17.9	18.3	8.9
Aid from multilateral donors	290.8	289.1	n/a
External public debt	3,126.6	3,223.6	n/a
Annual debt service (payments)	488.0	609.0	467.0
Debt service ratio (pct exports)	58.7	68.4	56.6
Gold reserves	n/a	n/a	n/a
Gross int'l reserves (yr-end)	193.6	200.8	215
Overall balance of payments	138.5	126.1	110.0

1/ Embassy estimates; exchange rate distortions greatly reduce the value of this measure.
2/ Crop year begins in September.
3/ 1987 data on unemployment and size of labor force are estimates from Ghana living standards survey. Unemployment is given as percent of labor force.
4/ Refers to direct investment.

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5/ Exchange rates are noted as average annual for official rate 1987-88; others are actual, as of 10/89.
6/ Bureaus were legalized in April 1988. Rates cited for 1989 are the range as of 11/1, 1989.
7/ Data for aid flows converted to dollars at the exchange rates prevailing at time of disbursements.

Many statistics are delayed and data may be subject to revision. Some data are projections and estimates, including all data for 1989

1. General Policy Framework

After six years of a stringent and consistent structural adjustment effort, Ghana's economy continues to gain strength. Major reforms include: liberalization of the foreign exchange and trade systems; abolition of many price controls; fiscal and monetary discipline; public sector rationalization; and rehabilitation of key sectors and infrastructure. The once greatly overvalued cedi was sharply devalued in 1986; hard currency availability was eased by the creation of a foreign exchange auction. Legalization of foreign exchange bureaus in 1988 created a free market in foreign exchange. Large inflows of foreign aid helped rebuild infrastructure and prime the economic pump. Good rains and higher producer prices for some cash crops revived farm output while industry and mining benefited from renewed access to raw materials, spare parts and better transport.

Despite the impressive record achieved since 1983, Ghana still faces obstacles in the struggle for sustainable economic growth. The economy remains heavily reliant on the vagaries of the weather and world prices for its exports (cocoa, timber, and gold). In 1988, favorable rains and increased timber and gold production, plus a large cocoa harvest, raised real GDP growth to 6.2 percent although inflation exceeded projections. Many Ghanaians exist on fixed incomes. Consumer demand is suppressed while unemployment is high, pushed by public sector redeployment. For productive sectors, access to credit was impeded by a liquidity squeeze in 1988-89. Although foreign exchange and trade liberalization improved the local environment for U.S. exports, low purchasing power and liquidity problems still act as significant constraints. In 1989, the Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), targeting the most economically vulnerable persons in Ghanaian society, disbursed funds to assist redeployed workers, landless rural farmers, and other disadvantaged groups.

Fiscal Policy: The Government of Ghana utilizes the annual budget to channel resources to rehabilitate productive sectors and finance the implementation of its reform policies. Expenditure is targeted at public sector investments identified in a rolling, three-year public investment plan (PIP). In 1988 and 1989, efforts were made to raise salaries in the civil service, especially for highly skilled employees. Resource mobilization efforts focus on enhancing efficiency of tax collection and rationalization of the tax system. Donor inflows form a significant portion of annual government capital expenditure. Potential private sector investors find the continued liberalization of the foreign exchange and trade regimes encouraging. However, many private sector firms face problems of liquidity and tight credit as the domestic banking system struggles to restructure with assistance from the World Bank. Investment capital is scarce.

Tax reform has been a major tool of fiscal policy for the past three years. During that time, the Government attempted to extend the personal income tax to include a greater number of self-employed income earners. Income tax owed by lower-paid workers was reduced. Taxation of dividends, excessive relative to rates on other forms of income, was also reduced. The corporate tax rate was lowered in 1988 from 55 percent to 45 percent for certain productive sectors (manufacturing, farming, export) and in 1989, it was cut to 50 percent for all other corporate bodies (except banking, insurance, commerce and printing, still taxed at 55 percent). Through improved tax administration and collection, the Government succeeded in raising tax revenues in 1988 by 38.5 percent.

Budget Surplus/Deficit: In 1988, both revenue and expenditure were higher than projected, resulting in a budget surplus for the third year in a row. The 1988 surplus was equivalent to 0.4 percent of GDP. A surplus was anticipated for 1989. In the past, budget deficits were financed by borrowing from the domestic banking system and nonbank institutions. In 1988, the budget surplus, plus concessional foreign financing and borrowing from the domestic nonbank sector, enabled the Government to make net debt repayments to the domestic banking system totalling 11.2 billion cedis (1.1 percent of GDP), almost twice the planned amount.

Monetary Policy: The Government utilizes credit ceilings and adjustment in reserve requirements to control the money supply. The level of financing for the cocoa sector is also a significant factor. A weekly Treasury bill auction sets the discount rate. In 1989, the Bank of Ghana (central bank) introduced new Bank of Ghana bills and created additional financial instruments for auction sale to banks in 1989-90. A program to initiate open market operations to control the money supply is planned for 1990. The growth of broad money at 43 percent in 1988 was higher than projected, primarily because of an unexpected improvement in the net foreign assets position of the commercial banks. Because Bank of Ghana credit policies remained tight, banks held sizable excess reserves in 1988 and into 1989.

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2. Exchange Rate Policies

Ghana operates a dual exchange rate system. The Bank of Ghana holds weekly foreign exchange auctions that determine the "official" exchange rate for the following seven days. To obtain foreign exchange from the auction, importers are required to bid through their banks after depositing the full cedi equivalent of their bids. A Bank committee evaluates bids and allocates the foreign exchange available that week to winning bidders. Imports for the industrial sector receive priority, but theoretically, since 1988, almost any commodity may be imported through the auction. Since 1986, the auction has eased access to foreign exchange for importers who have the cedis to bid, although at the current official rate the auction is unable to meet the full demand for hard currency.

Foreign exchange controls have been virtually eliminated by the Government. Bona fide requests for transfers of profits and dividends were made eligible for funding through the auction in February 1989. As of November 1989, few controls remained on current account transactions. In February 1988, the Government authorized the legal operation of private foreign exchange bureaus; the first few opened for business in April. They buy hard currency at market rates and sell it to importers or other customers with bona fide requests. Customers find that bureau foreign exchange is readily available, but at more costly rates than auction exchange. The bureaus constitute a free market in foreign exchange; rates fluctuate seasonally or according to the supply of hard currency in Accra. The advent of foreign exchange bureaus has facilitated imports of consumer goods and processed foods from the U.S., but local retail prices of the imports are high, reflecting the steep cost of hard currency. The emergence of foreign exchange bureaus has resulted in the virtual elimination of the parallel market.

3. Structural Policies

In the past six years, the Government has progressively liberalized the market structure. During the early years of the Economic Recovery Program (ERP--1983 through 1986), price controls throughout the economy were dismantled. After years of artificial controls, prices of goods were permitted to reflect significant changes in the exchange rate and in administered prices. (Administered prices affect commodities such as cocoa, coffee and petroleum products). Since 1985, the Government has adjusted upward the producer prices for cocoa and coffee to reduce the distortions implicit in the previously overvalued exchange rate and reverse excess taxation of farmers. Petroleum prices are adjusted annually to reflect world oil price movements and exchange rate fluctuations.

Since 1983, the Government has eliminated price subsidies on hundreds of products and commodities but retains controls on a few items. Controlled goods and services include petroleum products, cement, utility tariffs, flashlight batteries, beer, cigarettes, machetes, fertilizers and selected pesticides. The Government will reportedly remove most remaining price controls and subsidies by June 1990. The impact of surviving subsidies affects cross-border trade in the West African region, but has minimal effect on U.S. exports. Even after elimination of many subsidies and ensuing price hikes, petroleum products and some farm inputs cost much less in Ghana than in neighboring countries, encouraging smuggling.

The January 1989 budget statement announced a number of changes in the tax regime. For personal taxation, the standard personal exemption was raised and the top marginal rate was shifted to a higher annual income bracket. The basic corporate tax rate affecting manufacturing, farming and export sectors remained at 45 percent but a new rate of 50 percent was introduced applicable to most corporate bodies. However, banking, insurance, commerce and printing firms are still taxed at the old rate of 55 percent. Standard sales tax was reduced from 25 to 22.5 percent. Excise duty rates for beer, cigarettes, alcoholic and non-alcoholic beverages were lowered but those items now attract the standard sales tax rate of 22.5 percent versus the old rate of 7.5 percent. Import duties and sales taxes were raised on vehicles of engine size cc 1600 or below (in 1987, engine sizes less than cc 1600 could enter Ghana duty free). Tax rates were increased for cross-country vehicles. Sales tax continues to be calculated on the CIF import duty value (1988 change).

As of January 1989, a sales tax clearance certificate is required from manufacturers before their goods may be cleared from the port, to enforce the payment of sales tax and excise duties. No major structural policy changes affecting direction or character of investment occurred during 1988 or 1989.

4. Debt Management Policies

Ghana's Economic Recovery Program was instituted in 1983 close cooperation with the World Bank and the IMF. The program has been supported since 1983 by several IMF standbys and a current enhanced structural adjustment facility (ESAF), as well as two World Bank structural adjustment loans. Ghana has not rescheduled official credits under the Paris Club and has not rescheduled commercial bank credits. At year-end, 1988, Ghana's total external debt was calculated at $3.2 billion. Most of that amount is on concessional terms and is owed to international financial institutions and bilateral donors. External public debt as of 1988 consisted of:

Medium-term	$448.2
Long-term	$1,854.9
IMF	$761.2
Arrears	$69.8
Total	$3,134.1

In 1989, arrears were reduced to about $20 million, and the remaining amount is scheduled for repayment by mid-1990.

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The World Bank estimates that from 1989 to 1992, external debt interest payments will average $107 million per year. In 1987-89, the bunching of payments due to the IMF created a debt service bulge and high debt service ratios (as a percentage of exports: 68.4 in 1988; dropped to an estimated 56.6 in 1989 and projected to drop to 37.4 by the end of 1990; as a percentage of GDP: 12.6 in 1988: dropped to an estimated 10.8 in 1989 and projected to drop to 7.5 by the end of 1990).

Relations with the international financial institutions and donor countries are good and since 1983 Ghana has met scheduled obligations. Steady reduction in external arrears from $660 million in 1983 should enable Ghana to resume relationships with external creditors, possibly for trade financing. Foreign banks are not yet ready to begin significant lending in Ghana, but they are watching the progress of economic recovery efforts. A new debt management unit was established in 1987-88 at the Ministry of Finance and Economic Planning. The IDA structural adjustment institutional support credit funded the installation of a debt management and financial analysis system. It includes a program specifically designed to meet Ghana's requirements.

5. Significant Barriers to U.S. Exports and Investment

On January 14, 1989, the last vestiges of Ghana's import licensing system were formally abolished. The 20 percent SUL tax (a tax on special unnumbered import licenses) was also abolished. Importers are now only required to submit an import declaration form (not subject to Government approval). It states that import transactions will be conducted in accordance with Ghanaian laws.

Services Barriers

Advertising: Foreign advertising firms are not permitted to establish offices in Ghana.

Insurance: Ghanaian buyers are not permitted to insure imports (marine insurance) with foreign companies registered abroad and official imports must be insured with the government-owned State Insurance Corporation (SIC). Marine insurance is forbidden for imports on a CIF basis; marine insurance on official imports as well as casualty insurance on Government property are reserved to the SIC.

Tourism/Hotel/Motel: Foreign travel agencies are not allowed to establish businesses in Ghana.

Other areas of significant importance reserved to Ghanaians under the Investment Code of 1985 are:

- commercial overland passenger transportation and haulage services;
- laundry and dry cleaning;

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- wholesale/retail operations of "employed capital" or assets of less than $500,000;
- taxi or car hire services;
- agency/distributorship franchises by firms with "employed capital" or assets of less than $500,000;
- tire retreading businesses;
- beauty and barber shops;
- real estate agency operations;
- agricultural commodity brokerages with employed capital of less than $500,000;

Standards: Ghana has its own special standards for food and drugs, and offers quality standard testing according to acceptable international practices for imports with suspicious product characteristics. Quality testing of imports emphasizes food and other ingested products (drugs) with validity date markings. Not only imports, but all locally manufactured goods, are subject to Ghanaian standards, testing, labeling and certification regulations.

Investment: The Government has designated a list of priority sectors for investment (agriculture, tourism, manufacturing, and building/construction) and strongly favors enterprises that will produce for export using predominantly local materials. For foreign investors, the minimum equity is $60,000 (joint venture) or $100,000 (wholly-owned); the latter must be a net earner of hard currency. Expatriate quotas are in force and the special tax on expatriates was raised in 1988 to 500,000 cedis ($1,742). Exceptions are granted for government contract employees and persons working on projects financed by international organizations or bilateral donors.

Under the Investment Code, the Government guarantees free transferability of dividends, loan repayments, licensing fees and repatriation of capital; provides guarantees against expropriation or forced sale; and delineates dispute arbitration. Development and transfer of technology are criteria for investment approval, and the Ghana Investment Center (GIC) registers and may regulate such transfers. Foreign investors are not subject to differential treatment on taxes, prices or access to foreign exchange, imports and credit. For the most part, government policies do not restrict U.S. exports or direct investment, although some economic activities are closed to foreign investment (see Section 4). Land ownership by non-citizens is prohibited although expatriate companies may own property constructed on leased lands (long-term leases are standard in such circumstances).

The Investment Code specifies that prospective investors must be screened in accordance with their capacity to contribute to any of the following objectives: utilization of local materials, supplies and services; job creation; increasing export earnings and/or savings on imports; development and transfer of technology; and geographical dispersion. The GIC may stipulate the amount and source of capital, nationality and number of shareholders, project size, training of Ghanaians, time for implementation, utilization of local raw materials and other criteria. While the Government has demonstrated considerable flexibility and pragmatism in applying them, such performance requirements are likely to remain an integral part of its economic strategy.

To encourage investment in the petroleum and mining sectors, the Government promulgated separate legislation authorizing specific incentives and conditions for those sectors. Mining ventures receive greatly accelerated depreciation and an investment allowance, can carry forward losses and capitalize pre-mining expenses, and are permitted other exemptions or allowances on imports, personal income taxes and remittances, and expatriate quotas. These incentives appear equally available to foreign and Ghanaian private investors.

Government Procurement Practices: Government purchases of machinery, equipment and supplies are usually handled by the Ghana Supply Commission, the official purchasing agency, through international bidding and sometimes through direct negotiations, depending on the volumes involved. The Bank of Ghana, which monitors export receipts, officially does not encourage countertrade because of adverse past experience of over and under invoicing. However, the Government transacts countertrade deals with a number of Eastern European countries, in which Ghanaian cocoa beans and related products are exchanged for imports of pharmaceuticals, educational materials, road-building expertise, and other goods and services.

Except for tied-aid imports, Ghana does not discriminate against any country in its international trade, with one exception: imports from South Africa are prohibited. Former government monopolies on the importation of commodities such as meat, fish, wheat, and edible vegetable oil have been dismantled over the past two years. Parastatal entities continue to import some commodities such as sugar, wheat, rice and edible oil, but only to the extent that they receive financing from donor agencies or local flour millers. They receive no direct government subventions to fund imports. Provided they can raise the necessary cedis, private sector importers are permitted to bring in any commodities except the five items on the prohibited list (beer and stout, cigarettes, cement pipes, roofing sheets, and asbestos and fibers).

6. Export Subsidies Policies

The Government does not offer direct export subsidies. Ghanaian exporters are entitled to 85 percent drawback of the duty paid on imported inputs. Exporters of non-traditional commodities (other than cocoa, coffee, timber logs and lumber and nonfuel minerals) are allowed to retain a higher percentage (35) of their export receipts in hard currency accounts to finance imports of spare parts and inputs. They are also permitted to repatriate such funds if held abroad for sale through the local foreign exchange bureaus. Ghana is not a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Ghana is a member of the World Intellectual Property Organization and the English-speaking African Regional Intellectual Property Organization and is a signatory to the Universal Copyright Convention and the Paris Convention for the Protection of Industrial Property.

Prior to independence from the United Kingdom in 1957, Ghana had offered protection to intellectual property under U.K. laws. It still does so for patents, requiring the registration of patents in the United Kingdom and thereafter in Ghana within three months of the U.K. registration. In the early years of independence, Ghana instituted separate legislation for copyright and trademark protection (1961 and 1965, respectively). Ghana also offers protection to intellectual property rights holders of member countries under the terms of the conventions to which it belongs.

Ghana is now drafting its own legislation for patent protection but for the present continues to operate under the patent law of the United Kingdom. There are no official statistics on infringement cases, but legal sources indicate there were less than 20 court cases for intellectual property rights infringement during the last three years. Aggrieved holders of intellectual property rights have easy access to courts for redress locally. Information on counterfeiting is not readily available from official sources in Ghana. There is no problem in gaining or maintaining patent registration. Fees for registration by local applicants are 15,000 cedis (about $52) and $90 for foreign applicants.

There are no serious cases of book piracy and the few that have been recorded were all resolved by arbitration at the Ghanaian Copyrights Registry. Similarly, a small number of cases of other forms of copyright infringement have all been resolved through arbitration. The most serious problem of copyright infringement relates to video tapes and the Government is considering new measures to curb the incidence of illegal reproduction and commercial screening of tapes. As of the end of 1989, the Government will not issue a permit for a commercial video tape rental establishment to put up a satellite dish in Ghana to receive foreign television programming. According to the Copyright Registrar, copyright violations could be treated in Ghana as both criminal and civil court cases. Copyright violations in the form of pirated video tapes or cassette tapes probably account for the most serious losses to U.S. firms in the form of sales and royalties foregone.

GHANA

8. Worker Rights *

a. The Right of Association

Trade unions and their activities are governed by the Industrial Relations Act (IRA) of 1958, subsequently amended in 1965 and 1972. Organized labor in Ghana is represented by the independent Trades Union Congress (TUC), established in 1958, representing a claimed total membership of over 700,000 skilled and semi-skilled workers. The TUC publishes its own newspaper, which is independent of government subventions. It has publicly criticized the Government at times for its economic policies as well as failure to consult adequately the trade union movement.

The right to strike is recognized in law and in practice, although the Government has on occasion taken strong action to end strikes, especially those which threaten interests it perceives as vital. The Industrial Relations Act provides for a system under which the Government seeks first to conciliate, then arbitrate, disputes.

b. The Right to Organize and Bargain Collectively

The right to organize is generally respected, although civil servants are prohibited by law from joining or organizing a trade union. Ghana's trade unions engage in collective bargaining for wages and benefits with both private and state-owned enterprises, although in the latter category the threat of detention (a common practice in the early 1980s) hangs over union leaders to force agreement on issues. At the end of 1988, no union leaders were under detention for union-related activities. There are no functioning export processing zones in Ghana, and labor legislation is applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

Ghanaian law prohibits forced labor, and it is not known to be practiced.

d. Minimum Age for Employment of Children

Labor legislation sets a minimum employment age of 15 and prohibits night work and certain types of hazardous labor for those under 18. In practice, child labor is prevalent, and school age children often perform menial tasks in the daytime. Enforcement of minimum age laws is uneven, especially since local custom and economic circumstances favor children working to help their families. Violators of regulations prohibiting heavy labor and night work for children are occasionally punished.

e. Acceptable Conditions of Work

Minimum standards for wages and working conditions are established through a tripartite committee of representatives of government, labor, and employees. It establishes a minimum wage, and other salaries are adjusted accordingly. Effective January 1987, the minimum wage was increased 25 percent. In early 1988, the TUC called for a "meaningful" national wage of not less than $4.00 per day. The basic workweek is 40 hours. Occupational safety and health regulations are in effect, and sanctions are occasionally applied to violators.

f. Rights in Sectors with U.S. Investment

U.S. investment in Ghana is dominated by an operation in the primary and fabricated metals sector. However, there is also significant U.S. investment in the petroleum, chemicals and related products, and wholesale trade sectors. U.S. firms in Ghana must comply with Ghanaian labor laws and no instances of noncompliance are known.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	2	
Chemicals & Allied Products	4	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(*)	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		4
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1988

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* Section 8 is an abridged version of Section 6 of the Ghana country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1989. For a comprehensive discussion of worker rights, please refer to that report.

KENYA

Key Economic Indicators

(Millions of Kenya shillings unless otherwise indicated)

	1987	1988 (prelim)	1989 (est)
Income, Production, and Employment			
Real GDP (1982 prices)	72,995	76,769	80,607
Real GDP growth rate (pct)	4.8	5.2	5.0
Real GDP			
Agriculture	21,251	22,185	23,183
Manufacturing	9,487	10,056	10,599
Real GDP per capita (1982 prices)	3,344	3,388	3,425
Size of labor force (millions)	8.0	8.7	9.2
Unemployment rate	n/a	n/a	n/a
Money and Prices			
Money supply (M1)	22,888	24,229	27,136
Com'l interest rate (max) (pct)	14.0	15.0	15.5
Savings rate (pct)	11.0	10.0	12.5
Investment rate (pct)	n/a	n/a	n/a
Consumer price index (1982 = 100)	156	173	194
Wholesale price index	n/a	n/a	n/a
Exchange rate (shillings/$)			
Official	16.5	17.8	20.8
Parallel	25.0	28.0	30.0
Balance of Payments			
Total exports FOB	14,949	18.049	21,584
Exports to U.S.	1,469	1,620	1,463
Imports CIF	30,971	37,113	39,919
Imports from U.S.	1,403	1,228	1,216
Aid from U.S.	733	917	1,267
Aid from others	14,435	18,379	20,100
External public debt	58,229	76,291	87,735
Debt service payments (paid)	5,166	5,595	6,260
Gold and forex reserves	5,356	4,295	5,400
Balance of payments			
Trade balance	-11,748	-13,937	-13,243
Net services and transfers	8,217	11,819	13,281
Net investment income	-4,653	-5,945	-6,669
Current account balance	-8,184	-8,063	-6,631
Net capital account	6,320	6,515	7,087
Private long-term	198	338	380
Govt long-term	4,824	5,910	8,493
Short-term	1,650	943	703
Overall balance	-2,096	1,353	456

1. General Policy Framework

In the 26 years since independence, Kenya's leaders have followed an economic policy incorporating reliance on free market principles against a backdrop of central planning. Kenya boasts one of the most open economies in the African

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continent with an active private sector. Features of the system include the use of pricing incentives, a liberal investment code, export promotion, flexible exchange rate management, and flexible fiscal and monetary policies.

Throughout the 1980s Kenya has made reforms in line with IBRD/IMF structural adjustment programs. Reforms implemented in the last few years include broadening of the tax base, liberalization of imports, partial decontrol of fertilizer pricing, gradual currency devaluation, introduction of manufacturing under bond and elimination of controls on many items. Nevertheless, many serious impediments to greater free market development exist. The Government of Kenya is still heavily involved in key sectors of the economy and many costly and inefficient parastatal organizations divert scarce budgetary resources from more productive use.

Kenya's fiscal policies with respect to revenue generation have been adequate. Revenue was 22 percent of gross domestic product (GDP) in fiscal year (FY) 1989, but faster expenditure growth widened the overall budget deficit to about four percent of GDP in FY1989/90. Kenya raises 70 percent of its tax revenue from indirect taxation. In the FY1989/90 budget, the Government widened the tax base by introducing a 5 percent presumptive tax on sales of agricultural produce, and a 17 percent value-added tax, replacing a sales tax in January 1990. It also lowered corporate income tax and expanded tax incentives for small-scale and rural industrialization. There is scope, however, for mobilizing additional revenue through improvements in tax administration and greater reliance on cost recovery/user charges.

In its five-year decentralization strategy and budget rationalization program, the Government has adopted an expenditure program aimed at more efficient utilization of funds. Government efforts to rationalize expenditure have largely been unsuccessful because of expansion of public sector employment and slow implementation of cost-sharing for some social services. The Government aims to reduce the deficit to a level of 3.4 percent of GDP in 1990. Its main fiscal instruments for financing the deficit are Treasury bills and medium term bonds. These sources are limited, however, by relatively underdeveloped financial and capital markets.

The main policy instruments used to contain growth of money supply and domestic credit are: minimum liquidity ratio; minimum cash and reserve ratios; interest rate regulations; selective credit controls; and discount policy. These instruments are, however, reminiscent of monetary policy which is still relatively controlled and segmented. In the last three years, the Government reduced excessive growth in the money supply and domestic credit, from 28 percent in 1986 to 8 percent in 1989, by reactivating the use of cash ratio and credit restrictions and the sale of medium-term treasury bonds. In October 1989, Parliament passed a law establishing a capital markets authority, which will be instrumental to the development of a wider and freer capital market that will generate the long-term funds required for investment.

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2. Exchange Rate Policies

The local currency (Kenya shilling) is pegged to the International Monetary Fund's Special Drawing Rights (SDR), a basket of currencies. Since 1984, the shilling's exchange rates with the currencies that make up the SDR have been adjusted daily to maintain approximate parity with the latter. The nominal depreciation of the shilling against the U.S. dollar was 28 percent between 1986 and 1989. There is an illegal parallel market for foreign exchange. The difference between the official rate and the blackmarket rate is volatile and averages over 35 percent for most hard currencies, but the parallel market is not particularly deep and does not appear to account for a large volume of total exchange transactions.

3. Structural Policies

The Government of Kenya's structural adjustment policies are aimed at improving management of public expenditure in order to reduce the budget deficit, control inflation, restrain public indebtedness and avoid crowding out private investors. Procurement for all public projects and government requirements is done by the Government's Central Tender Board on a competitive basis. Prices of basic consumer and producer goods are controlled by the Government. The Government is committed to reducing the number of items under price control and to import liberalization and export promotion. The Government is making an attempt to shift costs to end-users through user fees or full cost recovery in services such as transportation, education, health care, and water. The changes toward a flexible exchange rate policy, the rationalization of the tariff structure, and the simplification of the import licensing system play a key role in expanding opportunities for U.S. exports.

In the last two years the Government has lowered income tax rates, broadened the tax base and increased its reliance on indirect taxation for revenue generation. Kenya maintains a progressive income tax structure. The first income tax bracket with an upper limit of $2,250 per annum is taxed at a rate of 10 percent. The rate increases with successive income brackets up to the last open-ended category of over $15,750, which is taxable at 45 percent. Effective January 1990, corporate taxes were lowered by 2.5 percentage points to 50 percent for foreign-owned and 42.5 percent for locally-owned companies. Tax collection efficiency is low. Total direct taxes yielded a declining share of 27 percent of total current revenue during the 1980-1985 period. Income taxes, which provided one-quarter of total recurrent revenue in 1988, are the largest source of government revenue, followed by sales taxes. Kenyan residents are subject to a 12.5 percent withholding tax on interest and 15 percent on dividends. Non-residents rates vary from 12.5 percent to 14 percent. Rates of sales tax range from 35 percent on essential items to 400 percent on luxury items such as automobiles. Rates of customs duty range from 35 percent on basic producer goods to 100 percent on most machinery and electronic equipment.

4. Debt Management Policies

Kenya's debt service ratio is about 29 percent of total export earnings. Export earnings depend largely on receipts from tourism, coffee and tea. The debt service burden while onerous, is not out of control and the Government has maintained a good repayment record, and has so far been prudent in the use of non-concessionary loans and has not sought rescheduling. The Government seems aware of the extent of its problems and has indicated a willingness to impose tough demand management measures to stabilize the situation. Major aid donors include the World Bank, the United States, the European Community and, lately, Japan. Since 1980 Kenya has regularly sought the IMF's structural adjustment credit facilities. External commercial borrowing is only about 15 percent of total borrowing.

5. Significant Barriers to U.S. Exports and Investment

The Kenyan import licensing system classifies imports into three broad categories. The first category comprises high priority capital goods, raw materials and intermediate inputs which can be identified easily. In principle, requests for licenses are approved automatically and demand is controlled by tariff rates. The second category contains goods subject to special import authorization such as fertilizers, cattle, live poultry, live fish, powdered milk, cheese, wheat, rice, maize, cereal flours, nuts, refined sugar, spices, petroleum products, selected motor vehicles and tractors. These are subject to special authorization of a designated government agency. The third category has three schedules--A, B and C. Schedule A lists technical items of unique high priority. Such items as engineering components, spare parts, precision instruments, chemicals, special plastic, glass and metal products. Approval is usually delayed because the items are handled on a case-by-case basis. Schedule B lists semi-essential goods, mainly consumer goods. Licensing depends on the foreign exchange reserve position. Schedule C lists lower priority items which the Government considers undesirable. Approval is normally difficult to obtain. For example, importation of used clothing intended for sale is banned.

Barriers exist to trade in services in audio and visual works, construction, engineering, architecture, insurance, leasing, shipping and foreign travel. Audio and visual works are licensed, censored, and sold by the government company, Kenya Film Corporation. Foreign companies offering services in construction, engineering and architecture often face discrimination in bidding for public projects. Local firms get 10 percent preference on quotations for tenders and small projects are reserved for local companies. Kenyan buyers of foreign goods are forbidden from insuring imports abroad.

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Kenyan exchange control laws represent major impediments to international leasing. Import licensing restrictions make it difficult to import equipment for leasing if it is available locally. There are stringent restrictions in foreign exchange approval for travel outside Kenya.

Major commodities imported into Kenya are subject to pre-shipment inspection for quality and quantity as well as for price comparison. All foreign exporters have to obtain "clean report of findings" from a government-appointed inspection firm which has offices in major trading points such as New York, Baltimore, Chicago, New Orleans and Houston. Importation of animals, plants, and seeds is subject to quarantine regulations. Importation is allowed only at designated ports of entry. Special labeling is required for condensed milk, paints, varnishes, vegetable and butter (ghee). In addition, imports of prepacked paints and allied products must be sold by metric weight or metric fluid measure.

The importance of governmental action in the import sector has increased. Government procurement for ordinary supplies as well as materials and equipment requirements of public development programs is a significant factor in Kenya's total trade. Government action is also evident in programs designed to ensure citizen control of local commerce. Many government imports are purchased through the Crown Agents, a British quasi-governmental organization. Most Kenyan Government departments obtain goods and services locally through a central tender board.

Kenya has promulgated a market sharing program for liner and bulk cargoes based on the U.N. Liner Code of Conduct for Liner Conferences. A significant portion of all shipments to and from Kenya, including half of foreign aid shipments, must travel on the Kenya National Shipping Line (which has no vessels of its own). The U.S. Government has objected that the policy raises costs for imports and exports by restricting competition in the shipping market. The policy on aid shipments also conflicts with U.S. law, which reserves up to 75 percent of U.S. aid shipments for U.S.-flag vessels.

Under the Foreign Investment Protection Act (FIPA), preference for investment is given to investors whose firms are expected to earn or save foreign exchange, increase the country's technical knowledge, increase employment in the country, utilize local resources, and are not based in Nairobi or Mombasa. Foreign investors are required to sign an agreement with the Government of Kenya stating training arrangements for phasing out expatriates. Expatriate work permits are increasingly difficult to renew or acquire. Government approval for ventures in agriculture, distributive trade, and small-scale enterprises has become more difficult to get as the government seeks to indigenize these sectors. Utilities are not open to foreign investment.

In early 1989, the Government enacted antitrust legislation, "The Monopolies, Prices and Trade Restriction Practices Act." The Act created a legal framework for dealing with restrictive and predatory practices that prevent the establishment of competitive markets, reduce concentration of economic power, control monopolies, mergers, and takeovers of enterprises. The Act repealed the existing Kenya Price Control Act and incorporated some of its provisions in new, cost-geared price legislation.

Foreign investors have limited access to domestic credit markets and are encouraged to seek credit from outside sources. All foreign firms are permitted to borrow locally up to the amounts required to pay customs duty on imported capital equipment. Foreign investors are also permitted limited credit from local financial institutions based on their amount of equity capital.

The Government allows a limited number of bonded warehouses for investors producing for export. Such investors may import inputs duty free and make local purchases free of sales tax. It is expected that the Government will increase the number of investors permitted to manufacture in bond for export. The Government is also making arrangements for establishment of an export processing zone in Nairobi and Mombasa.

Price controls and distributive requirements are a main disincentive to foreign investment in Kenya. In the last two years, the Government has reduced the number of items under price control and streamlined the system by which it reviews applications for price increases for those items still on the list, with a promise to further liberalize price legislation.

In June 1989, the Government reduced corporate taxes. Incomes of foreign investments in Kenya are taxable at a rate of 50 percent. In addition, withholding tax ranging from 12.5 percent to 30 percent is imposed on payments such as royalties, interest, dividends, and management fees. Kenya's tax treaties normally follow the Organization for Economic Cooperation and Development model for the prevention of double taxation of income. There is no tax treaty with the United States.

The Government does not have any significant investment performance requirements. Recent policy statements, however, indicate that the Government may soon institute export performance requirements. Investors who are potential or successful exporters may obtain special concessions over and above the generally available incentives.

Under FIPA, foreign investors are permitted to repatriate profits in the form of dividends or interest on loan capital. In times of foreign exchange crises delays have been experienced in dividend remittances. Permission is not normally given for the repatriation of capital profits. Loan capital, which can be denominated in local currency or in the currency in which it was brought in, is repatriable. Equity capital is acknowledged in local currency, and the amount recognized as invested under FIPA is repatriable either on the sale of shares or on the liquidation of the company. Any surplus funds whose approval is not given for repatriation are directed to a blocked account where they may be used to purchase specified government securities. Government securities carry interest rates far below the local market rates. They can be redeemed after five years, and the proceeds are then remittable. In 1982, the Government changed its policy on royalty payments. It has become increasingly difficult to obtain exchange control approval for registering royalty, technology, and management agreements.

6. Export Subsidies Policies

The Government of Kenya operates an export compensation scheme for locally manufactured products with less than 70 percent import content. Investors receive 20 percent compensation of total export value after Kenya earnings have been received. Petroleum products, chemicals, electric power and certain agricultural products are ineligible. For most products, eligibility is not automatic. Exporters have to seek approval from the Ministry of Commerce. The Government has stated that it will establish a "green" channel to simplify and speed up current lengthy procedures for import licensing and foreign exchange allocation.

The Government grants a one-time 50 percent investment allowance tax deduction from the cost of industrial buildings, fixed plant, and machinery for investments outside Nairobi and Mombasa, and 10 percent for those within these towns. This has an overall effect of reducing income taxes in the start-up phase of a project.

Exporters to the regional market covering 15 countries which are members of the Preferential Trade Area (PTA) Treaty receive advantages. Restrictive rules of origin which did not allow foreign firms to participate in the PTA market were suspended until 1990. Under the suspended rules, goods produced by firms with more than 51 percent local ownership received 100 percent duty free treatment, while those from firms with between 41 percent and 50 percent get 60 percent preferential treatment. Exports from firms with between 30 and 40 percent local ownership receive 30 percent preferential treatment. Kenya is a signatory of major international trade agreements such as the United Nations Conference on Trade and Development, the General Agreement on Tariffs and Trade, and the Lome Convention.

7. Protection of U.S. Intellectual Property

Kenya is party to several international agreements on intellectual property, including the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the Brussels Satellite Convention.

U.S. business persons are entitled to the benefits of these conventions, such as national treatment and "priority right" recognition for their patent and trademark filing dates. In spite of these agreements, pirated books, records, videos, and, to a limited extent, computer software find their way into Kenyan markets. Government inspection and existing laws are inadequate.

The U.S. motion picture industry is concerned about widespread video cassette piracy, blaming insufficient penalties in the copyright legislation and lack of enforcement.

8. Worker Rights *

a. The Right of Association

Most workers are free to form or join unions, with the major exception of civil servants whose union was deregistered by President Moi in the early 1980s. The union movement is healthy in Kenya and the Government does not discourage workers from exercising their right of association. The Central Organization of Trade Unions (COTU) is the legally mandated sole trade union federation to which all unions (except the Kenya National Union of Teachers) belong. Workers (except for certain "essential" employees) have the right to strike 21 days after a written report of the dispute is submitted to the Minister of Labor. This right is limited by the Trade Disputes Act, which authorizes the Minister to require the parties to undergo mandatory arbitration.

b. Right to Organize and Bargain Collectively

The Government promotes voluntary negotiations between employers and workers' organizations union membership. Collective bargaining is protected by law and is practiced throughout the country. Kenya does not permit closed shops and unions have long complained about "free riders."

c. Prohibition of Forced or Compulsory Labor

Under the Chief's Act, a local authority can require the performance of limited communal activities for the benefit of the local community. While this provision is rarely invoked, the ILO Committee of Experts has called on the Government to bring this Act into conformity with the ILO Conventions on forced labor. There are, however, a number of provisions in other legislation (e.g., Penal Code, Public Order Act, Prohibited Publications Order, Merchant Shipping Act, and the Trade Disputes Act) which the Committee has found to be inconsistent with the Conventions.

d. Minimum Age of Employment of Children

Under the Kenyan Employment Act children under 16 cannot be employed in construction, transportation, factories, or mines, nor can they be required to work more than six hours per day. Young people between 16 and 18 can be required to work more than six hours per day but may not be employed in dangerous occupations. There are no legal restrictions for employment in agriculture. Enforcement is difficult.

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e. Acceptable Conditions of Work

Kenya has a complicated minimum wage scheme divided by age, locale, and occupation. Over 80 percent of the labor force works in agriculture rather than in the wage sector and therefore is not covered by minimum wage law. The standard legal work week as defined by the Regulation of Wages Order, from which agricultural workers are exempt, is 52 hours over six days (60 hours per week for night duty workers.)

f. Sectors with U.S. Investment

Workers have the right of association, the right to organize and bargain collectively in all sectors where U.S. capital is invested. U.S. firms operating in Kenya in petroleum, food and related products, transportation equipment, and chemical and related products have had no major labor problems in recent years. Conditions in these sectors do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		80
Total Manufacturing		-7
Food & Kindred Products)	(*)	
Chemicals & Allied Products	(*)	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		72

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

* Section 8 is an abridged version of Section 6 of the Kenya country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990 For a comprehensive discussion of worker rights, please refer to that report.

NIGERIA

Key Economic Indicators

(Millions of U.S. dollars ($) or naira (N) as indicated)

	1987	1988	1989 (est)
Income, Production and Employment			
Real GDP (mils $)	28,260	29,108	29,981
Real GDP growth rate	1.0	3.0	3.0
Real GDP growth rate (pct)			
Oil sector	-10.4	2.9	6.7
Nonoil sector	2.9	3.1	2.5
Real per capita income ($)	370	288	n/a
Labor force (mils)	37.6	n/a	n/a
Agriculture	25.6	n/a	n/a
Petroleum	0.4	n/a	n/a
Manufacturing	3.7	n/a	n/a
Construction	0.5	n/a	n/a
Services	7.5	n/a	n/a
Unemployment rate (pct)	7.0	n/a	n/a
Money and Prices			
Money supply (M1) (mils N)	13612	19988	22270
Commercial interest rate 2/	15.5-16	13.5-15.5	29-31
Savings rate (pct) 3/	17.6	15.5	18.6
Investment rate (pct) 4/	12.1	12.7	13.6
Consumer price index 5/	10.2	38.0	45.0
Wholesale price index	n/a	n/a	n/a
Exchange rate (yr-end) (N/$)	4.1	5.35	7.7
Balance of Payments and Trade			
Total exports FOB	7763 6/	7355	8409
Exports to U.S.	3573	3298	4800
Total imports CIF	5774	6839	6210
Imports from U.S.	295	356	406
Aid from U.S.	2	5	12.5
Aid from other countries	n/a	n/a	n/a
External public debt	31857	32459	n/a
Annual debt service (paid)	981	2290	3092
Gold and forex reserves 7/	650	319	1146
Balance of payments	-78	-331	827

1/ 1989 figure for M1 is as of June, other years as of December
2/ average rate for 30-day money in 4th quarter of each year
3/ rate equals gross domestic savings as a percentage of GDP
4/ rate equals gross domestic investment as a percentage of GDP
5/ year-to-year change in average price levels
6/ figure for 1987 is not specified as either FOB or CIF
7/ figures are from the Central Bank of Nigeria, with no indication of whether gold is included.

Sources: IMF, IBRD, local banking sector, USDOC, USAID.

NIGERIA

1. General Policy Framework

Nigeria's population of over 100 million makes it the largest country in sub-Saharan Africa. It is also one of the poorest. Gross national product (GNP) per capita in 1989 was less than $270, down from a high of $1000 in 1980. Over two-thirds of the labor force is employed in agriculture, many of whom are engaged in subsistence, rain-fed, low technology farming. In 1989, agriculture contributed 30 percent of Nigeria's gross domestic product (GDP). Other, more modern sectors of the economy are services, manufacturing and government. The petroleum enclave has little spill over into the rest of the economy but provides Nigeria with about 90 percent of its export earnings and the lion's share of the Government's revenues. Thus, the stability of Nigeria's balance of payments and its general economic prosperity is highly dependent upon the volatile international oil market.

The boom of the 1970s (in which oil prices soared, incomes increased rapidly and public expenditures rose spectacularly) was followed by the bust in the 1980s. Nigeria saw its oil revenues fall from $25 billion in 1980 to $6 billion in 1986. Nigeria faced an acute economic crisis with unserviceable foreign debt obligations. The Government adopted a comprehensive economic structural adjustment program (SAP) in 1986 in an effort first to stabilize the economy and then to restructure and to diversify its productive base in order to increase its efficiency and to reduce its dependency on the export of oil to finance essential imports.

Fiscal Policy: The Government's fiscal policy has varied widely over the past three years. The 1987 budget was initially contractionary, but slippages late in the year caused the deficit to GDP ratio to rise from three percent in 1986 to nine percent. The 1988 budget was explicitly expansionary, in response to public demand for economic growth. In mid-year, the Government changed course again and cut expenditures. These cuts, coupled with increased nonoil revenues, limited the deficit in 1988 to 11 percent of GDP. The 1989 budget was an austere one which provided for modest increases in both capital and current expenditures if revenues exceeded projections.

The Government enacted a SAP "relief" program in mid-1989, partly in response to complaints from those opposed to the program. The deficit in 1989 was expected to fall to about eight percent of GDP. Since the oil boom ended, real government spending has declined and debt service has increased, leaving a declining share for recurrent and capital spending. An increasing share of recurrent spending covers personnel expenses, despite an overall decline in their real value. The result is a serious deterioration in the quality of public services and a shortage of goods and supplies.

Monetary Policy: A key component of the SAP is a tight monetary policy to contain demand for foreign exchange and avoid inflationary pressures. The Government has also moved toward a more market-oriented financial system to facilitate the mobilization of financial savings and to encourage more efficient allocation. In 1987, there was a rise of over 20 percent in M2, fueled by a rapid expansion of credit to cover a widening fiscal deficit. The inflationary impact was muted, however, as the bulk of growth was in quasi-money.

In the expansionary 1988 budget, lower interest rates and higher credit ceilings, however, led inevitably to rising prices. Despite the CBN's eleventh hour move in late 1988 towards a more contractionary monetary policy, net domestic credit still rose by 25 percent and broad money by 34 percent over the year. Monetary policy was tightened still further in 1989. In the first half of the year, net domestic credit was unchanged from its 1988 year-end level, while M2 grew by 15 percent. Interest rates rose sharply in response to the CBN's move in May 1989 to mop up excess liquidity and to reduce inflation by calling all public sector deposits out of the private banking sector and lodging them with the CBN. This move sterilized about 27 percent of total deposits and will greatly enhance the CBN's control over future credit creation. The CBN announced in September 1989 that it would allow current accounts to be held in commercial banks, thus partially revoking the initial CBN move.

2. Exchange Rate Policies

One critical feature of SAP was the elimination of import licensing as a means of rationing foreign exchange and the creation of an auction system more responsive to market forces. The real effective (official) exchange rate depreciated by 63 percent in 1986 once the auction system began in the last quarter. In 1987, the rate depreciated another 16 percent. By the third quarter of 1988, however, the CBN had allowed the naira to appreciate in real terms by 13 percent as the rate of devaluation failed to keep pace with the accelerating inflation. In January 1989, the Government introduced a new foreign exchange regime, the Interbank Foreign Exchange Market (IFEM), which unified all rates into one official rate. Under IFEM, the CBN determines the exchange rate on a daily basis and allocates foreign exchange among authorized banks according to their size. On the first day of this new system the CBN devalued the naira 22 percent.

Over the course of 1989, the CBN has allowed the naira first to depreciate, then to appreciate and finally to depreciate again (albeit very gradually). The exchange rate in November 1989 was naira 7.5/$1.00, a devaluation of 29 percent since the end of 1988; the inflation rate over the same period has been over 40 percent. The parallel market rate currently values the naira about 25 percent less than the official rate; the gap between the two rates has narrowed since last June. In August 1989, the CBN began to license money exchange facilities to change cash and travellers checks at market determined rates set by the facilities. In the first two months of operation, the rates were close to the parallel market rate for cash, ranging from naira 9.5 to 10.65/$1.00. The rate for travellers checks is somewhat less.

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3. Structural Policies

Since the beginning of SAP in 1986, the Nigerian Government has abolished export controls and the import licensing regime, eliminated ex-factory price controls, closed the commodity marketing boards and sharply reduced the number of banned imports. Yet, significant barriers to free trade remain: most food imports (rice, wheat, flour, barley, corn, poultry, vegetable oil, fruits and vegetables and malt) are banned. The new policies permitted nonoil exporters to retain 100 percent of their foreign exchange earnings, deregulated interest rates while retaining statutory limits on credit expansion and sectoral lending targets and implemented a comprehensive revision of the import tariff schedule.

In addition, over the last three years, the Government has significantly reduced subsidies by raising prices on many goods and services, including international air fares, railway freight rates, domestic and international telecommunications services and petroleum product prices. However, large subsidies remain. In June 1989, it instituted a sliding scale for electricity charges whereby the largest consumers saw their bills rise by up to 600 percent. The Government has also begun to sell off its shares in some state owned enterprises ("privatization"), as well as to make other state owned enterprises self sufficient and to eliminate their need for further subventions by January 1990 ("commercialization'.)

Generally speaking, pricing, tax and regulatory policies have not had a major impact on U.S. exports. Nigeria's nondiscriminatory tariff schedule, with its generally moderate rates of duty by LDC standards, has not presented a major barrier to U.S. exports, except for cotton and sorghum. These exports ended in 1987 and 1988, respectively, due to the imposition of prohibitive tariffs. The primary negative impact on exports has been the ban on the import of food items (see Section 5). On the other hand, the weakened dollar has made U.S. products more competitive, and Nigerians are increasingly seeking U.S.-sourced inputs. The most promising areas for U.S. trade are agrobusiness and sophisticated manufactured goods. While U.S. exports declined in the mid-1980s with the decrease in Nigeria's oil revenues, U.S. exports rose by 21 percent from 1987 to 1988 and by 20 percent from 1988 to 1989.

4. Debt Management Policies

Nigeria's estimated debt service payments before rescheduling for 1989 total $6.5 billion; the corresponding debt service ratio is 72 percent. Actual cash payments on the external debt are estimated at $2.5 billion or 27 percent of the exports of all goods and services in 1989. Even with rescheduling, Nigeria faces difficult financing gaps for many years to come.

Paris and London Clubs: Nigeria first reached rescheduling agreements with its official external creditors in 1986, temporarily averting a balance of payment crisis precipitated by a bulge in debt payments due in 1987 and 1988. Nigeria still had difficulty paying its unrescheduled trade arrears and amounts due on rescheduled debt during this period. In early 1988, Nigeria rescheduled approximately $5 billion in nonsecured trade debts. Nigeria negotiated its second rescheduling agreement with the Paris Club in March 1989. Bilateral agreements have been signed with several Paris Club members. (Nigeria and the United States signed their implementing agreement in December 1989). In April 1989, Nigeria signed a multiyear rescheduling agreement with its commercial bank creditors, covering another $5 billion of debt. The Government has generally made a good effort to keep up with the scheduled payments under these agreements.

IMF and IBRD: Nigeria's first standby arrangement with the International Monetary Fund (IMF) was approved in January 1987, following the introduction of the SAP. A second 15-month standby was approved in February 1989. The Nigerian Government has not drawn on either standby for domestic political reasons. The World Bank is the principal donor in Nigeria; its program for fiscal year 1989 of $1.056 billion provides assistance in several fields, including trade and investment policies, agriculture and rural development, health care, education and small and medium scale enterprises.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses and Tariffs: The system of import licenses was abolished with the introduction of the SAP in September 1986. Although the number of items on the list of banned imports has been reduced since 1986, the following items remain: most food items, processed wood, textile fabrics and garments, plasticware, vegetable oil and certain chemicals. Prior to the ban, the largest U.S. exports to Nigeria were wheat, barley, malt, rice and corn. The tariff on sorghum (the only remaining U.S. grain export to Nigeria) was increased from 20 to 100 percent at the beginning of 1989. The bans and the tariff are elements in a package meant to renew Nigeria's agricultural sector after years of neglect and in the face of severe foreign exchange shortages. The tariff on imported cigarettes also was raised in January 1989 to 200 percent, replacing an import ban but representing no effective change.

Investment: The Government has announced a new industrial policy which will remove many of the present barriers to foreign investments (see Section 3 above) and will otherwise facilitate new investment. Many of the limitations on foreign equity participation will be removed once the decrees enacting the policy are published. In the meantime, the Government has established an Industrial Development Coordinating Committee (IDCC), which is a one-stop investment center aimed at simplifying foreign investment approval procedures. Government approval is still required for residency permits for expatriates who occupy positions in local companies, but lately enforcement has been liberal.

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Customs: Nigeria requires that an international inspection service certify price, quantity and quality before shipment for all private sector imports. The United States has objected to this requirement for preshipment inspection, arguing that it interferes with the free flow of international trade, inflicts additional costs on exporters and importers and sometimes violates the confidential rights of the exporter.

Ocean Transportation: Nigeria has introduced a market sharing program for liner and bulk cargoes, based on the U.N. Liner Code of Conduct for Liner Conferences. Administrative costs are funded with a three percent fee on imports. The U.S. Government has objected that the policy raises costs for imports and exports by restricting competition in the shipping market.

6. Export Subsidies Policies

In 1986, the Government announced its intention to provide subsidies for nonoil exports through the establishment or revitalization of many programs, such as incentive schemes and the work of the Nigerian Export Promotion Council. These programs have been by and large ineffectual and have not adversely affected U.S. exports.

7. Protection of U.S. Intellectual Property

Nigeria is a party to the Paris Convention for the Protection of Industrial Property and to the Universal Copyright Convention.

The Nigerian Government is paying increasing attention to the issue of intellectual property protection. In December 1988, it enacted the Copyright Decree which dramatically increases the penalties for those convicted of infringement or of assisting in the act of infringement. The Nigerian Copyright Council was established in August 1989. It is too early to tell whether the Government will enforce the new decree effectively so that the rights of copyright holders are indeed protected.

Patents: The Patents and Designs Decree of 1970 governs the registration of patents. Once conferred, a patent gives the patentee the exclusive right to make, import, sell or use the products or apply the process. Few companies have bothered to secure patent protection because it is generally considered to be ineffective.

Trademarks: There have been informal attempts by local manufacturers of trademarked goods to curtail smuggled imports of bogus products which often originate in the Far East. Statutory protection exists, but enforcement is weak.

Copyrights: The new Copyright Decree, if it were to be enforced effectively, would go a long way to change Nigeria's reputation as Africa's largest market for pirated recordings.

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The International Intellectual Property Alliance, a group comprised of U.S. copyright interests, estimated that U.S. companies lost $39 million in Nigeria in 1988 due to copyright piracy. This excludes losses resulting from piracy of computer programs, which they were unable to quantify.

8. Worker Rights *

a. The Right of Association

All Nigerian workers 16 or older may join trade unions, with the exception of members of the armed forces and designated employees of essential government services (which may vary by decree). Employers are obliged to recognize trade unions and must pay a dues checkoff for employees who are members of a registered trade union. Nigeria has an active trade union movement, which has, within government-imposed limits, considerable latitude for action. Since 1975, government policy has permitted international labor affiliation only with the ILO, the Organization of African Trade Union Unity and affiliated pan-African labor federations.

b. The Right to Organize and Bargain Collectively

The labor laws of Nigeria permit collective bargaining between management and trade unions. However, restrictive measures imposed by the Government in recent years have significantly reduced the range of issues open to bargaining. Collective bargaining on salaries is common in the industrial sector of the economy which, however, is relatively small. Nigerian law includes provisions to protect workers against retaliation by employers for labor activity.

c. Prohibition of Forced or Compulsory Labor

While this prohibition is generally observed except in two community service areas, the ILO Committee of Experts has noted that various provisions of the Labor Decree of 1974, the Merchant Shipping Act, and the Trade Disputes Decree of 1976 impose sanctions that obligate work for breaches of labor discipline or for taking part in a strike. The Committee has urged the Government to adopt the necessary measures to bring these laws into compliance with ILO Convention 105.

d. Minimum Age of Employment of Children

Nigeria's 1974 Labor Decree prohibits employment of children under 15 in commerce and industry and restricts other child labor to home-based agricultural or domestic work. The Labor Decree does allow the apprenticeship of youths 13 - 15, but only under specific conditions. The activity of apprentices over 15 is not specifically regulated.

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e. Acceptable Conditions of Work

Nigeria's 1974 Labor Decree established a 40-hour work week, prescribed 2 to 4 weeks of annual leave, and set a minimum wage for commerce and industry. The 1974 decree contains general health and safety provisions, some aimed specifically at young and female workers, enforceable by the Ministry of Employment, Labour and Productivity. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents. The ineffectiveness of the Ministry in enforcing these laws in the workplace is regularly criticized by labor unions.

f. Rights in Sectors with U.S. Investment

Worker rights in the petroleum, chemicals, primary and fabricated metals, machinery, electric and electronic equipment, transportation equipment and other manufacturing sectors are not significantly different from those in other major sectors of the economy. In the sectors of wholesale trade and food and related products there are exceptions to the norm. Child labor is common in these fields and organization of labor exists only in its most rudimentary form.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		1,214
Total Manufacturing		58
Food & Kindred Products	0	
Chemicals & Allied Products	48	
Metals, Primary & Fabricated	-2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		21
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,293

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Nigeria country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

SENEGAL

Key Economic Indicators

(Billions of CFA francs (CFAfr) unless otherwise noted)

	1987	1988 (est)	1989 (prelim)
Income, Production and Employment			
Real GDP	606	633	637
Real GDP growth rate (pct)	4.2	4.4	0.6
GDP by sector (pct)			
Primary	21.6	21.7	n/a
Secondary	25.7	25.8	n/a
Tertiary	38.9	39.2	n/a
Other (including govt)	13.8	13.3	n/a
Real per capita income	n/a	n/a	n/a
Size of labor force	n/a	n/a	n/a
Unemployment rate	n/a	n/a	n/a
Money and Prices			
Money Supply	214	225	n/a
Commercial interest rates (pct)	13.5	13.5	15.5
Savings rate (pct)	9.3	10.2	10.0
Investment rate (pct)	15.0	14.9	14.5
Consumer price index (1967=100)	499.1	490.0	n/a
Wholesale price index	n/a	n/a	n/a
Exchange rate pd avg (CFAfr/$)	300.5	297.9	315.0
Balance of Payments and Trade (mils $ unless otherwise noted)			
Total exports FOB	648.0	777.1	801.0
Exports to U.S.	7.4	8.2	n/a
Total imports FOB	907.1	1,020.6	1,004.0
Imports from U.S. FAS	49.0	69.1	n/a
Aid from U.S.	45.3	42.8	55.3
Aid from other countries	368.7	n/a	n/a
External public debt (bils $)	3.2	3.7	3.6
Debt service payments (paid)	267.7	326.8	289.0
Gold and forex reserves	21.5	19.7	n/a
Balance of payments	-244.2	-233.2	-196.0

Sources: IMF, World Bank, Goverment of Senegal, USAID, USDOC.

1. General Policy Framework

Senegal is a poor country. The World Bank's 1988 World Development Report ranks Senegal as the 33rd poorest country of 129 countries with more than a million people. The Bank estimates that Senegal's GNP per capita in 1986 was about $420. According to the U.S. Department of Commerce, in 1988, of the 173 trading partners of the United States, Senegal ranked 106 as a market for U.S. goods and 133 as a supplier of U.S. imports. Prospects for a significant upward shift in these rankings in the near future are dim.

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Since June 1983, Senegal has been actively pursuing a structural adjustment program with the support of the IMF, the World Bank and major bilateral donors. The program has been designed to liberalize the economy and rationalize the allocation of resources in order to encourage economic growth and development through market forces. Until 1989, real GDP growth had been responding well, averaging 4.3 percent per year from fiscal year 1986 through 1988. During late 1988 and early 1989, economic growth suffered when agricultural output was set back by a combination of badly distributed rainfall and locust damage, and the commercial sector was adversely affected by the Senegalese-Mauritanian ethnic disturbances. These factors combined to keep real GDP growth for Senegal's fiscal year 1989 (July 1, 1988 to June 30, 1989) to about one percent.

The Government's pursuit of structural adjustment has been marked by demand management policies and fiscal restraint, which have stabilized prices and reduced both the massive budget and trade deficits of the early 1980s. Quantitative import restrictions have been eliminated. The final phase of tariff reduction took place in July 1988. As a result of a serious shortfall in budget revenues in fiscal year 1989, the Government temporarily increased customs duties and implemented a number of other fiscal measures in an effort to increase receipts during the 1990 fiscal year.

Senegal is continuing to struggle with stagnation in the industrial sector of the economy. High factor costs, particularly energy, and the rigidity of the Senegalese labor code have acted as drags on economic growth by discouraging new private investment. In early October 1989, in an effort to stimulate new foreign investment as a means of expanding the industrial base and increasing employment, the Government enacted changes to the Investment Code which will allow new investors a greater degree of flexibility in their labor practices. These new provisions were also applied to firms in the Dakar Industrial Free Zone, with the ultimate aim of increasing exports of manufactures.

The Government's approach to fiscal policy in recent years has been to try to increase revenues and cut costs, mainly through tax reforms and procedural changes. The Government has clamped a lid on spending, which has led to a decline, in real terms, in both current and capital expenditures.

With the assistance of multilateral and bilateral donors, the Government is trying to restructure the banking sector. The illiquid state of the sector, which is suffering from years of unsound banking practices, has acted to slow economic growth. The proposed reform program will involve the restructuring of some banks, the closure of others, the institution of more rigorous supervision and inspection of banking operations, and the liberalization of monetary and credit policies. Successful reform of the banking sector, to provide the financial intermediation needed for a healthy economy, is key to Senegal's development prospects.

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2. Exchange Rate Policies

As a member of the West African Monetary Union, Senegal's exchange system is free of restrictions. It shares a common currency, the "Communaute Financiere Africaine" (CFA) franc, with six other West African countries. The CFA franc is issued by a common Central Bank, the "Banque Central des Etats de l'Afrique de l'Ouest." The value of the CFA franc is pegged to the French franc at a fixed rate of 50 to 1. Therefore, downward movements of the dollar vis-a-vis the French franc make U.S. exports more attractive to Senegalese businesses and consumers.

3. Structural Policies

In recent years, the Government has enacted some major adjustments in its tax and pricing policies. The New Agricultural Policy (1984) raised producer prices on cereal crops in order to increase domestic food production, and eliminated fertilizer subsidies. The New Industrial Policy (1986) eliminated quantitative restrictions on imports, lowered tariffs and reduced the scope of price controls except for a limited number of goods and services considered to be of strategic importance.

The Government is also undertaking a major reform of the tax system. These reforms focus essentially on simplification of the tax system, reductions in tax rates, and elimination of widespread tax exonerations. Steps have also been taken to revamp the customs tariff code and schedules, revise the Investment Code, and reform the direct tax system including property tax. In response to the unanticipated heavy shortfall in government receipts during fiscal year 1989, the Government raised (temporarily for two years) the customs duties from 10 percent to 15 percent and established a minimum duty payment on certain items, and implemented a series of revenue enhancement measures.

4. Debt Management Policies

The Government of Senegal has followed a cautious external debt management policy in trying to ease Senegal's heavy debt service burden. Roughly 57 percent of Senegal's debt is owed to official bilateral creditors, while multilateral debt accounts for about 33 percent. The remaining 10 percent is private debt. In January 1989, Senegal negotiated a seventh debt rescheduling agreement with its official creditors at the Paris Club. Relief totalled about $150 million, of which just over $3 million was owed to the United States. In view of the downturn in economic performance in 1989, it is expected that Senegal will have to seek relief from official (Paris Club) and commercial bank (London Club) creditors again in early 1990.

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In the summer of 1989, France and the U.S. both announced debt cancellation programs benefiting Senegal. France will forgive about $162 million in outstanding debt, equal to about 29 percent of Senegal's debt to France and 5 percent of total foreign debt. The U.S. program, which covers all of sub-Saharan Africa, will potentially write off between $850 million and $1 billion in development assistance and economic support fund debt to the entire region. However, the plan is estimated to affect only about $200,000 of Senegalese debt to the United States.

While the burden of external public debt on the economy increased sharply during the past decade, current projections indicate that the stock of foreign debt owed by the Government will show its first decrease (roughly two percent) in a number of years. It is too early to tell whether Senegal will be able to maintain this positive momentum and continue to reduce its stock of debt while simultaneously improving its current account balance. The Government has recently started to investigate the possibility of using debt-equity swaps as a means of lowering its modest commercial bank debt as well as channeling monies into much needed investments.

5. Significant Barriers to U.S. Exports and Investment

Under Senegal's latest Investment Code (adopted in July 1987), most legal restrictions on foreign investment were abolished with the hope of attracting new foreign investment. To date, high energy and labor costs and the small domestic market have tended to discourage new investments in the industrial sector. On September 22, 1989, the Government, in an effort to revitalize business investment (and at the urging of the World Bank and others), amended the Investment Code to allow new companies or companies undertaking new investments greater flexibility to adjust their work force to meet business conditions--something not easily done under the Senegalese Labor Code. The Government is also exploring ways to reduce energy costs, which have also been important in constraining industrial sector growth.

Government procurement is done on a competitive bid basis. However, there are strong commercial and cultural ties with France which tend to sway procurement decisions in favor of companies based in France. As a result, many U.S. firms operating in Senegal do so through their French subsidiary or affiliate.

Senegalese requirements for testing, labeling and certification have generally been adapted from the French model. Some U.S. firms have found that the lack of French language translations of their U.S. certifications has delayed the introduction of products in the Senegalese market. This is particularly true in the area of pharmaceuticals where the Ministry of Health must certify that the drug is safe to use.

SENEGAL

6. Export Subsidies Policies

Peanuts and phosphates have traditionally been the leading foreign currency earners of the Senegalese economy, only recently displaced by exports of fish and fish products. All of these products are subsidized either directly or indirectly in order to encourage exports. Peanut exports are subsidized by two direct and one indirect subsidy. The price stabilization fund pays the oil-crushing firms the difference between the international price for peanuts and the farmgate price (set by the Government) which they have to pay the growers. The "break even" fund pays the oil-crushers to cover their fixed costs during bad crop years. Until 1985 these funds covered both domestic and export production. Since that time, however, only export activities are covered. The indirect subsidy for peanuts is in the form of preferential interest rates for seasonal crop credits. This subsidy can also be applied to cotton.

Since 1982, the Government has been quite successful in enhancing nontraditional exports, particularly fish and fish products. At least part of this success can be attributed to subsidies which take the form of credits on import duties for inputs to production. These credits can be used by firms to offset other taxes for which they may be liable. Similar credits apply to firms operating in the Industrial Free Zone of Dakar.

7. Protection of U.S. Intellectual Property

Senegal has been a member of the World Intellectual Property Organization since its inception. Senegal is also a signatory to the Berne and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property as well as to the Patent Cooperation Treaty.

Local statutes also recognize reciprocal protection for authors or artists who are nationals of signatories to the 1971 Paris Convention on International Property Rights. U.S. citizens are entitled to treatment equivalent to that granted to Senegalese nationals with respect to maintaining their patent and trademark rights. They are also entitled to certain special advantages, such as a one-year preservation of patent filing rights after first filing in the United States (six-months for trademarks). Protection against arbitrary cancellation of patents as well as trademarks is valid for 20 years.

8. Worker Rights *

a. The Right of Association

A minimum of seven people, each having worked within their profession for at least one year, are free to form a union by submitting a list of members and a charter to the Ministry of Interior. A union can be disbanded by the Ministry if its activities deviate from the charter. Even though they represent a small percentage of the overall population, unions wield a significant amount of political influence, primarily because of their ability to disrupt essential services. Senegalese unions are represented in international labor organizations, such as the ILO and the Organization of African Trade Union Unity. Approximately 100,000 of the estimated 323,000 workers in the formal economy belong to various unions.

b. The Right to Organize and Bargain Collectively

Senegalese unions have the right to organize and to bargain collectively, and these rights are protected in practice. Where factories and businesses have closed, collective bargaining has succeeded in several instances in guaranteeing extended benefits for laid-off workers.

An industrial duty free zone exists in Dakar. The full range of Senegalese labor laws applied in this zone until October 1989 when the Government, in an effort to attract foreign investment, created exemptions from certain articles of the Labor Code for companies operating in the zone and new companies establishing operations in the rest of Senegal. These exemptions provide companies greater flexibility in hiring and firing practices and thus allow them to more easily adjust to prevailing business conditions.

c. Prohibition of Forced or Compulsory Labor

There are no reports of forced labor in Senegal.

d. Minimum Age for Employment of Children

The minimum work age in Senegal is 16 for apprenticeships and 18 for all other work. These restrictions are strictly enforced in the formal economy (i.e., state agencies, large private enterprises, or farming cooperatives.) Minimum age and other workplace regulations on family farms and in privately-owned businesses are much less well enforced.

e. Acceptable Conditions of Work

Workers in the formal economic sector have standard workweeks (40 to 48 hours per week), holiday and annual leave benefits (usually one month per year), and a variety of health and safety regulations which benefit them. These regulations are incorporated into the Labor Code approved by the National Assembly and are supervised by Ministry of Labor inspectors.

f. There is very little direct U.S. investment in the goods-producing sector of the Senegalese economy. Those sectors which have some U.S. investment are petroleum, food and related products, chemicals and related products, and other manufacturing. Worker rights in each of these areas are covered by the Senegalese Labor Code, as discussed above.

SENEGAL

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Zaire country report included in the Department of State's *Country Reports on Human Rights Practices for 1989*, submitted to the Congress January 31, 1989. For a comprehensive discussion of worker rights, please refer to that report.

SENEGAL

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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SOUTH AFRICA

Key Economic Indicators

(Billions of rand (R) unless otherwise stated)

Income, Production, and Employment	1987	1988	1989 (est)
Real GDP (1985 prices)	128.8	132.9	131.3
Real GDP growth rate (pct)	2.6	3.2	2.0
Real GDP by sector (1985 prices)			
Agriculture	7.5	7.3	n/a
Mining	16.3	16.4	n/a
Manufacturing	27.1	28.7	n/a
Electricity	4.8	5.4	n/a
Construction	3.8	3.9	n/a
Wholesale retail trade	12.6	13.9	n/a
Transport/communication	10.0	10.3	n/a
Finance/business services	16.9	17.1	n/a
Community services	2.0	2.1	n/a
GDP per capita (est 1985 rand) 1/	3,457	3,488	n/a
Labor force (mils) 1/	10.5	n/a	n/a
Unemployment rate 1/	n/a	n/a	n/a
Money and Prices			
Money supply (M1)	34.08	41.9	n/a
Prime overdraft rate (pct yr-end)	12.5	18.0	21.0
Gross savings/GDP (pct)	23.3	21.8	22.0
Gross domestic fixed investment/GDP (pct)	18.0	18.6	19.3
Consumer price index (pct chg)	16.1	12.9	16.0
Exchange rate ($/rand, yr-end)	.52	.42	.36
Balance of Payments and Trade			
Total exports fob	42.9	51.0	n/a
Exports to U.S.	2.6	3.6	n/a
Total imports fob	28.3	39.1	n/a
Imports from U.S.	2.5	3.7	n/a
Aid from U.S. 2/	n/a	n/a	n/a
Aid from other countries 2/	n/a	n/a	n/a
External public debt	22,618	21,185	n/a
Annual public debt service (paid)	n/a	n/a	n/a
Gold and forex reserves	7.9	6.7	n/a
Balance of payments (current acct)	6.2	2.9	4.0

1/ Statistics depending on population data often are unreliable. Official black population and unemployment rates are understated. Most economists believe that black unemployment exceeds 20 percent, while government estimates are closer to 15 percent. Rates among other racial groups are lower. The aggregate GDP per capita estimate hides a very large disparity between per capita white and black rates.

2/ Small amounts are sent indirectly to assist non-white population groups from both official and private sources outside South Africa.

SOUTH AFRICA

1. General Policy Framework

South Africa is an advanced developing country with a modern industrial sector, well-developed infrastructure and rich natural resources. Economists agree that South Africa has the potential to grow at an annual rate in excess of five percent. Yet, with the exception of 1988 when real GDP grew by 3.2 percent, economic growth over the past seven years has averaged less than one percent in real terms and unemployment in the black community is estimated at more than 20 percent. This relatively poor performance can be explained by several structural factors:

- apartheid, past and present, has led to the inefficient use of resources, with under investment in human capital, labor rigidities, and large outlays for duplicative layers of government;

- unrest and rapidly growing government consumption expenditures contributed to six consecutive years of decline in real gross fixed investment until a slight upturn in 1988;

- sanctions and the perception that South Africa is a poor long-term risk have limited access to international credit markets; and

- negative real interest rates, heavy reliance on government business enterprises, a large and duplicative bureaucracy, and investments in strategic industries and stockpiles have distorted investment decisions and reduced the efficiency of scarce capital resources.

The South African Government has taken some steps to reduce these structural problems. While there is a long way to go in eliminating apartheid and meeting the aspirations of the black community, some progress has been made in reducing the economic distortions caused by racial policies. Many restrictions which made it difficult or impossible for black South African citizens to own businesses, obtain skilled jobs, or maintain permanent residence in urban areas have been lifted. Spending on black education in recent years has increased substantially and black trade unions have been recognized. Still, much remains to be done, and the effects of past policies, and in particular the deleterious legacy of the "bantu" education system, will be felt for many years.

Progress on a more market-oriented monetary policy has been rapid. Since 1978, quantitative credit controls and administrative control of deposit and lending rates have largely disappeared. The South African Reserve Bank now operates more like other western central banks. It influences interest rates and controls liquidity through the discount window, and to a much smaller degree, through the placement of government paper. The Reserve Bank establishes targets for the money supply growth (M3), although for many months these targets have been exceeded by a large margin. In the last two years, a series of restrictive monetary policy steps have been taken in an effort to curb domestic spending on imports.

SOUTH AFRICA

Traditionally, South Africa has run a conservative fiscal policy. In recent years government revenues have lagged behind expenditures, leaving a substantial deficit. Excessive government financing requirements have put pressure on private financial markets. Central government revenues amount to 23.6 percent of GDP, more or less comparable with other countries at South Africa's stage of development. The government budget deficit equaled about 5.7 percent of GDP in budget year 1987/88 and close to 6 percent of GDP in 1988/89. Some progress is being made, however, and it is expected to fall to under 4 percent of GDP in budget year 1989/1990. Nationalized industries include substantial portions of the energy sector, transportation, armaments, electric power, communications, steel aluminum, and chemicals. In early 1988, then-State President P.W. Botha announced a program of widespread privatization of public enterprises to correct this imbalance. A major step was taken in November 1989 when ISCOR, the State steel corporation, was privatized.

2. Exchange Rate Policies

South Africa has not liberalized exchange controls. Faced with large scale capital outflows in 1985, the Reserve Bank reimposed comprehensive capital controls and reintroduced a dual exchange rate. This latter mechanism maintains one exchange rate (the financial rand) for all foreign investment transactions, including both capital inflows and outflows, and another exchange rate (the commercial rand) for all other transactions. This effectively cushions the economy from the effects of international capital flows. Under South African exchange regulations, the Reserve Bank has substantial control of foreign currency receipts. The Reserve Bank is the sole marketing agent for gold (which constitutes about 30 to 40 percent of export earnings--depending on the gold price). This provides the bank with wide latitude in influencing short-term exchange rates.

Except for a period in 1987 when the bank followed an implicit policy of fixing the rand against the dollar, monetary authorities normally allow the rand to adjust periodically with an aim to stabilize the external accounts. Since 1984, the rand has depreciated sharply against all the major western currencies.

3. Structural Policies

Purchases by government agencies are by competitive tender for project or supply contracts. Bidders must pre-qualify, with some preferences allowed for local content. Parastatals and major private buyers such as mining houses follow similar practices, usually inviting only approved suppliers to bid. The primary tax in South Africa is the income tax. The maximum rate of 45 percent is reached at a net income level of R33,000 for married and R22,000 for single taxpayers. Corporate income is taxed at a flat rate of 50 percent, although mining enterprises are taxed at over 56 percent.

Significant revenues are also raised by the general sales tax which is currently at 13 percent. There are plans to replace the sales tax with a value-added tax in 1990. South Africa raises additional revenue through estate duties, transfer duties, and stamp duties. There are no export taxes, but import duties protect local industry, rising to 100 percent in the case of some luxury goods. Compliance with the norms of the South African Bureau of Standards is not generally required, although it is obviously a marketing advantage. Industrial standards are high. Metric and electrical configurations can be an obstacle to some U.S. exports. Input price controls primarily affect local agricultural producers.

4. Debt Management Policies

South Africa's external debt at the end of 1988 was estimated at $21.2 billion, with the private sector accounting for approximately $14 billion of this total. The debt-to-GDP ratio in 1988 was 24 percent. Debt service in 1986 (the latest year for which data are available) was $4.4 billion, divided roughly evenly between interest and amortization payments. The ratio of foreign debt to export proceeds in 1988 was 82 percent. In 1985, faced with large scale capital outflows and intense pressure against the rand, the South African Government declared a unilateral standstill on amortization payments. Interest payments were continued, and amortization payments due to international organizations and foreign governments were not included in the standstill net, thus obviating the need for a Paris Club rescheduling. The standstill was regularized in meetings with private creditors in 1986. In 1987, South Africa and its private creditors negotiated a three year rescheduling agreement. This agreement was recently renegotiated to run through 1993.

South Africa is a member of the International Monetary Fund (IMF) and continues Article IV consultations on a regular basis. U.S. law requires the U.S. Executive Director at the IMF to oppose actively any extension of IMF credit to South Africa unless the U.S. Treasury Secretary certifies to the U.S. Congress that such credit would have a number of specified favorable effects.

5. Significant Barriers to U.S. Exports and Investment

South Africa's Minister of Trade and Industry may, in the national interest, prohibit, ration or regulate imports under the terms of the Import and Export Control Act of 1963. Current regulations require import permits for a wide variety of goods. Of most significance are the existing surcharges on imported goods which range as high as 100 percent on some items. As part of the government's attempts to address its debt repayment and other macroeconomic problems, there is some talk that direct import controls may be put in place in the future, but this is considered unlikely by most economists.

SOUTH AFRICA

Local content requirements apply in certain industries, notably motor vehicle manufacturing, but no other significant barriers exist. The United States essentially banned all new investment (except in black-owned firms) with the Comprehensive Anti-apartheid Act of 1986. That Act also banned U.S. exports of crude oil and refined products, all nuclear-related equipment, and computers. The Act bans U.S. sales of arms, ammunition and equipment and all sales to the South African military and police.

6. Export Subsidies Policies

Government incentives to export are divided into four categories: compensation of part of import duties; a proportion (10 percent) of value added during manufacture; financial assistance for activities such as market research and trade fairs; and income tax allowances. Other direct and indirect export subsidies are available to local manufacturers, particularly for factories located in designated development areas. Subsidies include electricity and transport rebates, export finance and credit guarantees and marketing allowances. The Government has announced that this scheme will be overhauled in 1990 following the report of a government commission now reviewing export policies.

7. Protection of U.S. Intellectual Property Rights

South Africa's attendance at meetings of the World Intellectual Property Organization has been barred by a resolution of that organization. The country also is a signatory to the Berne Copyright and Paris Industrial Property Protection Conventions.

South Africa's intellectual property laws and practices are generally conformity with those of the industrialized nations, including the United States. There is no discrimination between domestic and international holders of intellectual property rights.

No positions taken by South Africa in other international fora appear to have a negative impact on U.S. intellectual property rights or trade and investment opportunities based on those rights. An effort in the last parliamentary session to prohibit cancellation of license agreements by disinvesting companies was dropped after objections by South Africa's major trading partners. The basic objective of South African Government policy with respect to foreign intellectual property holders is to maintain access to foreign technology and information.

The U.S. motion picture industry seeks improved product protection in South Africa. It claims that unauthorized public performances of their products has become a major problem in hotels and apartment buildings in South Africa. Videocassette piracy is also of great concern to the U.S. motion picture industry, which estimates that 20 percent of total videocassette sales in South Africa are of pirated material. Also, the industry is concerned with "parallel imports," the unauthorized importation of their products from third countries.

8. Worker Rights *

a. The Right of Association

South Africa's Labor Relations Act entitles all private sector workers to join freely labor unions, which are independent of direct government control. However, amendments made to the Act in 1988 are generally seen as being anti-union. Particularly damaging is a section that makes unions liable for financial compensation to employers in the case of an illegal strike, with the burden of proof being upon the unions. As unions have increasingly voiced black worker demands for political rights, the Government has imposed restrictions on their political activities.

b. The Right to Organize and Bargain Collectively

The Government does not interfere with union organizing in the private sector and has generally not intervened in the collective bargaining process. Collective bargaining is freely practiced throughout the country with the major exceptions of public servants, farm workers and domestic servants who are not covered by the Labor Relations Act. In addition, South African labor law does not cover the "independent" homelands which for the most part do not have labor legislation to match that of the Labor Relations Act. Excluding the homelands, labor laws and practices are applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

South Africa does not constitutionally or statutorily prohibit forced labor; however, the legal system does not permit it.

d. Minimum Age of Employment of Children

South African law prohibits the employment of minors under 15 in most industries, shops and offices. It prohibits minors under 16 from working underground in mining. There is no minimum age at which a person may work in agriculture.

e. Acceptable Conditions of Work

The Labor Relations Act provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. At present over 100 industries covering most non-agricultural workers come under the provisions of the Act. The Occupational Safety Act sets minimum standards for work conditions and employment, and those standards are enforced.

SOUTH AFRICA

f. Rights in Sectors with U.S. Investment

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988

(Millions of U.S. dollars)

Category			Amount
Petroleum			(D)
Total Manufacturing		508	
Food & Kindred Products	20		
Chemicals & Allied Products		122	
Metals, Primary & Fabricated		(D)	
Machinery, except Electrical		113	
Electric & Electronic Equipment		-5	
Transportation Equipment		(D)	
Other Manufacturing	139		
Wholesale Trade		80	
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE			(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the South Africa country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

ZAIRE

Key Economic Indicators

(Dollars or zaires (Z) as noted)

	1987	1988	1989 (est)
Income, Production, and Employment			
GDP (mils $) (1980 prices)	5416	5566	5750
GDP growth rate (pct)	2.7	2.5	2.7
GDP by sector (pct)			
Manufacturing	6.6	n/a	n/a
Agriculture	20.7	n/a	n/a
Mining/petroleum	24.0	n/a	n/a
Services	42.8	n/a	n/a
Utilities/public works	4.1	n/a	n/a
GDP per capita (Z)	170	180	180
Labor force (mils)	18	19	19
Unemployment (pct)	n/a	n/a	n/a
Money and Prices			
Money supply (M2) (mils Z)	74,700	169,851	247,042
Interest rate (rediscount)	25	35	55
Savings rate (pct GDP)	9	9	11
Investment rate (pct GDP)	12	11	13
Consumer price index (pct chg) 1/	106	94	60
Wholesale price index	n/a	n/a	n/a
Exchange rate (avg)			
Official	113	187	320
Parallel	175	270	400
Balance of Payments and Trade (mils $)			
Total exports FOB	1744	2207	2330
Exports to U.S.	321	364	340
Total imports CIF	1653	1956	2071
Imports from U.S.	103	122	120
Aid from U.S.	62	57	62
Aid from other countries	234	235	n/a
External public debt (exclud IMF)	7334	7230	n/a
Debt payments (paid)	186	162	n/a
Gold and forex reserves	418	371	253
Balance of payments			
Trade	91	251	259
Current account	-648	-693	n/a

1/ December to December

1. General Policy Framework

Zaire has a mixed economy, with a dominant state role in the mining, utility, and transportation/communication sectors, but with private enterprise present throughout the economy. Except for petroleum, utilities and parts of the transportation sector, market determined prices are the norm (although a law limiting profits is still on the books), and most parastatal enterprises compete with private ones. Fiscal and monetary policy reforms initiated by the Government under a 1983 economic adjustment program supported by the International Monetary Fund (IMF) have resulted in a more liberalized and open economy.

Between 1986 and 1988, Zaire experienced serious economic difficulties and economic mismanagement, including decreased government revenues, increased deficit spending, soaring inflation, depreciation of the zaire currency, accumulation of arrearages to foreigners, and an increasingly active parallel or black market for foreign exchange. Export earnings fell in real terms in 1986 and 1987 due to low world prices for copper, cobalt and petroleum, the country's principal exports. The dramatic increase in copper prices in 1989 is expected to increase significantly total export earnings.

Prospects for 1989 are brighter. The Government's efforts since January 1989 to contain the budget deficit and achieve realistic exchange and interest rates have resulted in a reduced inflation and a narrowing of the gap between the official and parallel market exchange rates. Foreign exchange is more readily available and some companies are reporting increased earnings.

In June 1989, the Government agreed on a structural adjustment program with the IMF and the World Bank which will bring down triple digit inflation and bring a net inflow of capital from multilateral and bilateral donors and creditors over the life of the Agreement (1989-92). Stated fiscal policy supports major development efforts in agriculture, transportation, and health; however, a large political and administrative bureaucracy centralizes most government expenditures on Kinshasa and other urban areas. Government income comes chiefly from import and export taxes, with income from mineral and petroleum exports providing most foreign exchange revenue. Receipts from customs duties have recently been increasing with improved management of the customs agency.

Zaire has often financed its large budget deficits by borrowing from the domestic banking sector, which in turn led to excessive growth in the money supply and rapid inflation. This was the case beginning in 1986 which resulted in an inflation rate of 100 percent in 1988. In January 1989, however, the Government committed itself to contain both the budget deficit and to limit monetary financing of the deficit. These limited improvements in the health of the economy will not result in significant short-term improvements in import capacity of U.S. consumer goods or enable the country to embark on major projects. The majority of Zaire's 34 million people earn about $180 per year. Consumer goods beyond the bare essentials do not tend to sell well. The market for heavy equipment, especially in mining and road construction will continue to be strong. The best prospects for U.S. exports continue to be heavy equipment, especially mining and road equipment. Food products such as wheat, flour, frozen fish and chicken, and canned goods are good prospects, and a number of export opportunities exist for U.S. companies in telecommunications and appropriate technology equipment.

2. Exchange Rate Policies

Since the 1982-83 liberalization program, controls on foreign exchange have been lifted in a shift toward greater emphasis on market forces and private enterprise. Participants in the foreign exchange market are the commercial banks and the Bank of Zaire, with individuals and corporations purchasing exchange from the commercial banks. The availability of foreign exchange through official channels has depended chiefly upon world commodity prices for Zaire's major exports (minerals and coffee), the level of government deficit spending, and government adherence to a floating exchange rate system determined by supply and demand.

The 1983 currency reform measures led to a decline in parallel market transactions and a larger supply of foreign exchange at the official rate in commercial banks. However, in the wake of increased deficit spending, accelerating inflation, and a sharp decline in the availability of foreign exchange in 1988, the Government allowed insufficient depreciation and the parallel market returned as a significant economic channel. In 1988, the zaire depreciated 100 percent against the dollar and 87 percent against the Belgian franc. However, by April 1989, the stabilization actions taken by the Government began to show results: the rate of devaluation had slowed and the difference between the official and parallel rates had narrowed to less than 10 percent.

3. Structural Policies

The economic liberalization policy pursued by the Government since 1983 has had a positive effect on commerce in Zaire. Nontariff measures which used to impede trade have been reduced and U.S. trade with Zaire has increased steadily. However, the general scarcity of foreign exchange in the economy restrains imports for both consumption and production needs. Regarding government procurement policy, calls for tenders are publicly made, and bids solicited actively from foreign suppliers. Government parastatal enterprises as well as the Government itself buy a considerable part of their supplies abroad because in many categories of goods there is no domestic supplier.

Special licenses are required for all petroleum product imports in order to enforce the Government's policy that all petroleum imports be made through a purchasing committee. The committee is composed of the petroleum distributors and is chaired by the state oil company, PetroZaire. Only petroleum products to be imported from suppliers under contract to this committee are granted import licenses. Chevron presently supplies third-country crude to Zaire under such a contract.

The Government encourages local production with high duties on finished goods and reduced customs duties on raw materials. Recent improvements in the collection of customs duties and value-added taxes on imported goods has generated increased revenue for the Government. However, weak administration of customs collections continues to be a problem.

4. Debt Management Policies

At the end of 1988, Zaire's outstanding debt was estimated at $7.3 billion (excluding payments due to the IMF). Most of this debt is owed to bilateral government creditors while multilateral institutions account for 14 percent and commercial banks account for about 6 percent. Without debt rescheduling, Zaire would have a high debt-service ratio. However, debt reschedulings have reduced debt service payments, resulting in an actual debt service ratio of between 12-19 percent. This ratio fell to 7.3 percent in 1988 because Zaire stopped most debt service payments to bilateral creditors in May and accumulated substantial arrears. Zaire's debts were again rescheduled in June 1989.

5. Significant Barriers to U.S. Exports and Investment

Import licenses are still required for all transactions in foreign exchange. These licenses are issued by the commercial banks under guidelines of the Central Bank and in most cases are readily granted. The purpose of the import license is to collect statistics on imports and foreign currency flows and to monitor the use of scarce foreign exchange to limit nonpriority expenditures such as imports of luxury goods. This measure applies to imports from all countries, without discrimination toward U.S. products.

Government procurement decisions are greatly affected by the financing arrangements offered by exporters and their governments. While the U.S. Overseas Private Investment Corporation (OPIC) has been active in Zaire regarding political risk insurance, the Export-Import bank does not currently finance exports to Zaire.

Zaire has a relatively open market in the services sector of the economy. U.S. companies currently compete in banking, consulting, engineering, hotel, business, accounting, legal, and express package delivery services. Some areas are not open to private competitors, however, such as insurance, in which the state enjoys a monopoly.

Regarding capital exports, Zaire has made efforts to attract foreign investors. A new Investment Code promulgated in April 1986 is an important step towards restoring investor confidence and mobilizing foreign capital. The Code incorporates various existing tax benefits and introduces new ones. The Bilateral Investment Treaty signed in 1984 by the United States and Zaire and ratified in 1989 offers U.S.

investors additional guarantees in the areas of transfer of profits, employment of necessary expatriate technical and managerial personnel, adequate compensation in case of expropriation, and dispute settlement. In most cases, the Government neither requires nor generally seeks participation in foreign investments. New commercial ventures are required to have up to 40 percent Zairian participation but this requirement can be, and often is, waived. In the minerals sector, the Government generally takes a 20 percent share in private investments in return for concession rights, but does not participate in management. Despite these measures, foreign investment has increased little, if any.

The Government of Zaire encourages foreign firms to minimize the number of expatriate employees. It is official policy that as an investment matures, the number of expatriates should diminish. The Government exercises control over expatriate employment through the issuance of residence and work permits. The new Bilateral Investment Treaty assures the right of U.S.-owned firms to fill key management positions with personnel of their choice, although a special tax applies to expatriate salaries.

6. Export Subsidies

There are no export subsidies in Zaire, nor any government programs to assist the export sector.

7. Protection of U.S. Intellectual Property

The Government of Zaire acknowledges the value of intellectual property. The country is a party to the Berne Copyright and Paris Industrial Property Protection Conventions and is a member of the World Intellectual Property Organization.

The Government's Department of National Economy and Industry protects privileged technology and production information, as well as trademarks. International franchisees (e.g., Coca-Cola) operate comfortably in Zaire within the protection granted by the state. A national society of editors, composers, and authors oversees copyright protection due artists under the law, but it is a private organization and not an official agency. There is very limited production of books and sound recordings in Zaire. We are not aware of any incidents of patent infringement in the country.

The Government acknowledges its duty to pursue trademark infringement, but the legal and administrative system is ill-equipped to do so. As a large country that borders nine other states, Zaire has difficulty controlling goods crossing its borders. The personnel and expertise to check all goods entering for possible trademark fraud are limited. Cartier watches, U.S. brand name jeans, and designer label clothes all of questionable origin are freely available in Kinshasa. The EC has assisted the Government with a multi-year World Bank program for the staffing and training of customs inspectors, which should enhance their future effectiveness, provided foreign trademark owners are vigilant in registering their marks in Zaire.

8. Worker Rights *

a. The Right of Association

Worker rights and working conditions are established by the Constitution, the Labor Code, and collective bargaining. The labor movement is limited by law to one national union, the National Union of Zairian Workers (UNTZA), which is an integral unit of the sole political party. Membership in UNTZA is compulsory for civil servants, employees of state enterprises, and employees of private firms with at least 20 employees. The union claims about one million workers as dues-paying members, out of a potential work force of 17 million of which the overwhelming majority is self-employed in the unofficial sector or in subsistence agriculture. UNTZA participates actively in the International Labor Organization (ILO) and the Organization of African Trade Union Unity.

b. The Right to Organize and Bargain Collectively

UNTZA has the right to bargain collectively with employers. The right to strike is included in the labor law, but because the law established lengthy and mandatory arbitration and appeal procedures which result in the resolution of most labor disputes, in practice lawful strikes do not occur. Workers, nevertheless, conduct frequent unauthorized strikes against employers.

c. Prohibition of Forced or Compulsory Labor

The Constitution and labor code forbid forced labor. However, Zairian legislation now obliges every able-bodied adult not contributing to national development to work on farms or development projects under threat of penal sanctions.

d. Minimum Age for Employment of Children

The legislated minimum working age is 18, although those between 14 and 18 may perform "light work" with parental consent. Many children under 14 work in the informal sector, especially subsistence agriculture, where minimum wage, safety and health standards are not observed for them.

e. Acceptable Conditions of Work

Workers are entitled to a minimum daily wage, paid holidays and vacations, and one rest day per week. They enjoy fringe benefits which usually include transportation, medical care, a housing allowance, uniforms, and a midday meal. The work week is limited to 48 hours. Work places are expected to meet minimum safety and health standards. The majority of the population is engaged in subsistence agriculture and small scale commerce in the informal sector. In the private sector, fringe benefits are not subject to income tax and often constitute more than half the total wage package. In the public sector, remuneration is lower and workers are often driven to corruption or take second jobs in the private sector.

f. Rights in Sectors with U.S. Investment

There are U.S. investments employing Zairian labor in the petroleum and chemicals sectors. These enterprises are subject to the labor laws that cover all Zairian workers. There is no forced or child labor at U.S. companies, and U.S.-originated standards are used for safety. Although health benefits and salaries are low at some firms, they generally compare favorably with local practice.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		52
Total Manufacturing		6
Food & Kindred Products	0	
Chemicals & Allied Products	3	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Zaire country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

ARGENTINA

Key Economic Indicators

(Millions of U.S. dollars and period averages unless otherwise noted)

Income, Production, and Employment	1987	1988 (est)	1989 (est)
GDP in current dollars (mils)	78,000	75,621	71,839
GDP by sector (pct)			
Agriculture	14.7	14.6	16.0
Industrial	23.6	22.9	21.0
Services	50.7	51.1	51.0
Per capita GDP (current $)	2,459	2,468	2,315
GDP constant 1970 prices (pct chg)	1.9	-3.1	-5.0
Population (000s)	31,470	31,933	32,403
Population growth (pct)	1.5	1.5	1.5
Labor force (000s)	11,786	11,956	12,129
Unemployment rate (avg) 1/	5.7	6.1	7.5
Underemployment rate (avg) 1/	8.1	7.9	10.5
Industrial production (pct chg)	-0.6	-7.0	-8.0
Combined deficit as pct of GDP 2/	7.2	5.0	n/a
Money and Prices			
Money supply (M1) (pct chg, Dec)	107	322	3,500
Commercial interest rate (30-day deposits)			
Nominal (Dec, pct) 3/	12.3	12.2	5.0
Real (Dec, pct) 3/	8.6	5.0	1.5
Investment rate (pct of GDP)	11.4	13.2	12.0
Consumer price index (annual pct chg - Dec)	175	388	4,900
Wholesale price index (annual pct chg - Dec)	182	432	10,300
Exchange rate (avg) (australes/$1.00)			
Official	2.15	8.78	450.00
Parallel	2.73	10.81	550.00
Balance of Payments and Trade			
Total exports FOB	6,360	9,137	9,620
Exports to U.S. CIF	1,176	1,568	1,400
as share of total (pct)	14	13	13
Total imports CIF	-5,818	-5,322	-4,326
Imports from U.S. FOB	1,089	1,055	1,100
as share of total (pct)	17	18	20
Trade balance	542	3,815	5,394
Current account balance	-4,300	-2,200	-1,400
Foreign debt, publ & priv (yr-end)	58,324	58,734	60,000
Interest paid 5/	4,200	1,550	618
Interest accrued	4,300	4,350	5,390
as pct of merchandise exports	67.6	47.6	56.0
Forex reserves Gross (yr-end)	3,100	4,800	880
Gold (yr-end) 6/	1,421	1,421	1,421
Trade balance	-87	-513	-300

ARGENTINA

(est) estimated by Embassy

1/ October percent
2/ Combined, deficit of the non-financial public sector plus the operating loss of the Central Bank
3/ free market, non-regulated rates from the Ministry of Economy and the Central Bank
4/ Includes debt to equity conversions.
5/ As of December 31, 1988, Argentina had accumulated some $2.6 billion in interest arrears to commercial banks and several hundred million dollars in unrescheduled interest obligations to official creditors.
6/ Valued at $42.22 per troy ounce.

1. General Policy Framework

Despite a wealth of natural and human resources, the Argentine economy has largely stagnated over recent decades with a rigid and increasingly outdated productive sector. Economic performance has been extremely variable, marked by low growth and high inflation. Since at least the 1940s, the productive sector was malformed by the implementation of import substitution policies and the development of large State corporations, tapping resources from the country's rich agricultural base.

Substantial losses in the public sector along with tax evasion rates that the Government recently estimated to be as high as 60 percent caused large and persistent public sector deficits--which ranged as high as 21 percent of GDP during 1989. In recent years the Government has faced great difficulty in financing its deficit on anything less than extremely unfavorable terms. For the most part, it has had to rely on the Central Bank to finance the deficit. In this effort the Central Bank forced reserve requirements to a level that approached 100 percent, but monetary creation remained the key element in closing spending gaps.

As a result, inflation has averaged roughly 10 percent per month since 1973 despite price and currency controls, and finally flared to hyperinflationary rates during 1989 (4,923 percent inflation for the year). With Argentina's record of inflation and controls, capital has long sought refuge in the dollar and in offshore assets. Official estimates put the amount of U.S. currency in circulation in the country at $4 to 5 billion, an amount which continues to be several times that of australs in circulation and in checking accounts. Offshore assets in private Argentine hands have been estimated at as high as $40 billion.

The Alfonsin Administration (1983-1989) recognized the structural problems facing the economy, but was unable to make much headway. With many promises for economic reforms unfulfilled, an economic crisis forced Alfonsin to leave office early. As a result, the Menem Administration took over five months earlier than expected, in July 1989, and quickly embarked on an ambitious program of structural reform. Within two months it proposed and passed a reform law to reduce and restructure its State corporations and an economic emergency law to regain control of government expenditures. Monthly inflation dropped to single digits in the period September-Novvember 1989. Higher than forecast inflation, however, and failure to eliminate the fiscal deficit led to further erosion of the austral and a return to hyperinflation by year-end.

The Menem Administration introduced a tax reform bill with the objective of doubling tax receipts by broadening the tax base and relying more heavily on a smaller set of taxes. The economic team has worked closely with the International Monetary Fund (IMF) in constructing the reform program and the IMF Executive Board approved a standby arrangement on November 10, 1989. Another part of the structural reform effort is a policy of opening the Argentine economy to world market forces. The Administration has embarked on a four-year program to cut the maximum tariff in half to a general ceiling of 20 percent and reduce the number of items under quantitative restrictions. Despite these good steps to restructure the economy over the medium-term, the Menem Administration has not yet succeeded in the short-term goal of stopping hyperinflation.

2. Exchange Rate Policies

The Menem Government initially followed the Argentine tradition of pegging the austral to the U.S. dollar as part of the program to dampen inflationary expectations. The Government wanted to hold the current official rate fixed through March 1990, but in view of inflationary pressures on the currency and dwindling reserves, the Government allowed the exchange rate to float in late 1989. As of December 1989, imports of pharmaceutical product inputs continued to receive a preferential exchange rate.

All exporters and importers are required to obtain licenses. Under the old foreign exchange regime for imports and exports, the fastest the Central Bank was required to make disbursements was 90 days after shipment. Nevertheless, most shipments took 180 days. Since the official rate has normally overvalued the austral, Argentina's exchange regime favored imports over domestically-produced goods and hurt the competitiveness of Argentine exports. This was partially offset in the case of imports by the Central Bank's delay in payments. Firms dislike having their capital tied up for long periods, despite regulations that allow for interest payments.

3. Structural Policies

Argentina currently has a mixed economy, with the public sector occupying roughly half of GDP. Many poor quality products from a highly protected industrial base have left

Argentines with a bias for imports. As part of its effort to improve quality through competition, the Menem Administration suspended the "Buy Argentine" program and is now in the process of drafting a new, more market-oriented decree.

The vast majority of price controls were eliminated in December 1989. In the past, price and wage controls have generally represented a substantial constraint on private sector planning, adding a continual element of uncertainty to business decision-making. This uncertainty has had a negative impact on new investment.

The Menem Government is in the process of reforming the tax system by cutting the number of taxes. The objective is to reduce the high incidence of tax evasion. It is too early to say how the tax structure actually will be applied in practice. Tax rebates for exporters have been suspended until March 1990 with a six-month additional extension possible. Extensive tax evasion and a large underground economy have traditionally diluted the impact of tax policy on overall economic activity. Certainly, tax policy has not been as important in slowing economic activity as the budget deficits the new tax law is designed to help correct.

4. Debt Management Policies

Argentina is a major debtor country, with a foreign debt that has increased by over 50 percent since the debt crisis began in 1982. Its $60 billion or so of debt is approximately 80 percent of GDP. The Alfonsin Administration did not service Argentina's commercial bank debt during the last year of its term and arrears rose to approximately $4 billion--more than 40 percent of yearly exports. While the Menem Administration pledged to honor Argentina's obligations, no timetable has been released, and interest arrears to commercial banks rose to over $8 billion by the end of 1989. Arrears to international financial institutions, which started at the end of the Alfonsin regime, were cleared, however. Continuing economic decline, despite the absence of debt service payments, demonstrates that debt service is not a root cause of Argentina's economic malaise.

Protracted negotiations with the IMF and the commercial banks have led to three major bank refinancings and new money packages since 1982. The most recent (1987) rescheduled virtually all principal payments (about $34 billion) over nineteen years with a seven-year grace period. Paris Club governments rescheduled $2.4 billion of Argentina's official debt in December 1989. Argentine negotiators are again talking with the commercial banks, and are working closely with the Fund. The Government is also talking with the World Bank about reviving its sector loan program.

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5. Significant Barriers to U.S. Exports and Investment

While Argentina has a licensing requirement on all imports as a check on foreign exchange, licenses are automatically issued by the Ministry of Economy on most goods. The list of products that require prior consultation with industry was recently further reduced from over 1,000 items to about 110. Nevertheless, the reluctance of some Central Bank officials to make dollars available for goods deemed to be unnecessary or a luxury tends to impede the import of these items.

Foreign investment no longer requires prior approval from the Argentine Government. Investments may be registered by filing a simple form with basic information about the investor and the investment. Foreign investors receive essentially the same treatment as domestic investors.

Air courier fees are the highest in the world. While the Government has agreed to reduce the fees to internationally accepted levels, it is trying to determine how to accomplish this under the price freeze and "no subsidy" rules of the battle against inflation. Argentine theaters are required to show a certain number of local films, and local laboratories must print 80 percent of all imported color movies. Exporters and importers are prohibited from buying marine insurance abroad. Import tariffs on computers and other electronic products remain especially high. Customs procedures are lengthy and unnecessarily slow.

Argentina and the United States have an agreement giving the shipping lines of each country access to government controlled liner cargo of the other. Third-flag shipping lines, however, do not have access to shipments under the control of the Argentine Government.

6. Export Subsidies Policies

The economic emergency law has suspended most subsidies, including those for exports, until March 1990. At that point the Government will have the option of extending the suspensions for another 180 days. The Central Bank has taken advantage of the law to put its export financing programs on a market led--LIBOR plus--basis. The Bank's management stated its determination not to return to the subsidies of the past without a specific appropriation.

Export taxes on agricultural and industrial products are applied in a way that creates a multiple exchange rate system, giving these items rates that are less favorable than the market exchange rate.

7. Protection of U.S. Intellectual Property

Argentina is a party to the Berne and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property.

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The Argentine Government has committed itself to supporting intellectual property in the Uruguay Round.

The Government protects intellectual property rights through a legal system offering process patents, trademark, and copyright protection. Although the legal system generally affords adequate protection for trademarks and copyrights, the patent law needs updating. The Menem Administration has promised to solve this problem, and the U.S. Pharmaceutical Manufacturers' Association has withdrawn its Section 301 petition regarding Argentina's lack of product protection for pharmaceuticals. Nevertheless, Argentina remains on the U.S. Trade Representative's Special 301 "Watch List" under the provisions of the 1988 Omnibus Trade and Competitiveness Act.

In the informatics sector, Resolution 44 seeks to attract foreign hardware manufacturers to establish joint ventures with Argentine firms for the local manufacture of selected computer products. Computer hardware imports face high duties established to protect infant industries.

8. Worker Rights *

a. The Right of Association

There is free right of labor association in Argentina. The Argentine labor movement is a major economic and political force, independent from the Government. The Argentine Congress passed legislation in 1987 and 1988 which reinstituted previously suspended laws governing labor relations and other trade union rights. Trade unions enjoy free right of association with international organizations. The General Confederation of Labor (CGT), Argentina's national labor federation, participates actively in the ILO. Unions have the right to strike, subject to compulsory conciliation and arbitration by the Labor Ministry.

b. The Right to Organize and Bargain Collectively

Labor and management have a binding collective bargaining process which sets wage levels on an industry-wide basis. State involvement in this process is limited to ratifying the agreements, which provide them with legal status. The Government continues to offer wage guidelines under its economic emergency adjustment program, and directly sets wages in state-owned enterprises. Anti-union discrimination is prohibited by law and well-developed mechanisms are in place, and functioning, to resolve complaints. There are no officially designated export processing zones in Argentina.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is illegal and is not practiced.

d. Minimum Age for Employment of Children

The law prohibits employing children under 14, except in the family. Minors of 14 and 15 may work in restricted types of employment, but not more than 6 hours per day or 35 hours per week. The same law applies to minors 16 to 18, although competent authority may make exceptions. Enforcement of this law is reportedly hampered by economic factors, but violations are tried before the appropriate courts.

e. Acceptable Conditions of Work

Argentina offers comprehensive protection of workers' rights. The maximum workday is 8 hours; the work week is 48 hours. Premiums must be paid for work beyond those limits. Rules governing vacations, minimum wages, and occupational health and safety are comparable to those in Western industrial nations and are respected in practice.

f. Rights in Sectors with U.S. Investment

U.S. investment in goods producing sectors is relatively insignificant in Argentina. Argentine labor law is applied uniformly throughout the country.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		405
Total Manufacturing		1,215
Food & Kindred Products	170	
Chemicals & Allied Products	258	
Metals, Primary & Fabricated	110	
Machinery, except Electrical	257	
Electric & Electronic Equipment	41	
Transportation Equipment	95	
Other Manufacturing	283	
Wholesale Trade		99
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,719

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Argentina country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights please refer to that report.

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Key Economic Indicators

(Millions of new cruzados (Cz) unless otherwise noted)

	1987	1988	1989	
Income, Production, and Employment				
GDP (bils $) a/	325.0	351.6	365.0	1/
Real GDP growth (pct) a/	3.6	-0.3	1.0	1/
GDP per capita (Cz) a/	2,224	2,434	n/a	
Read GDP growth by sector (pct) a/				
Agriculture	15.0	-0.4	n/a	
Industry	1.0	-2.5	n/a	
Services	3.3	2.2	n/a	
Labor force (000s) a/	59,543	61,014 1/	62,521	1/
Unemployment (avg pct-pd end) a/	5.1	3.9	3.2	2/
Money and Prices				
Money supply (M1) (pd-end) b/	1,036	6,958	17,675	3/
Comm interest rates (avg real monthly pct) c/	30.8	9.7	44.9	2/
Trade bill (discounted comm note) avg annual real net pct) c/	64.9	34.2	236.8	2/
Foreign savings (pct GDP) a/	0.5	1.6	n/a	
Domestic savings (pct GDP) a/	17.8	n/a	n/a	
Investment rate (pct GDP) a/	18.3	17.5	n/a	
Price increase				
Consumer a/	366.0	933.6	524.0	4/
Wholesale d/	407.2	1,050.0	333.5	5/
Exchange rates (annual pct chg) b/				
Official	380.0	955.0	270.4	5/
Parallel	243.8	1,199.5	287.0	5/
(Sao Paulo market) c/				
Spread parallel/official rates (pct period-end)	30.4	60.6	67.7	2/
Balance of Payments and Trade (mils $)				
Total exports e/	26,224	33,787	33,500	
Exports to U.S. e/	7,325	8,715	5,405	5/
Total imports e/	15,051	14,605	17,000	
Imports from U.S. FOB e/	3,189	3,121	2,537	6/
Aid from U.S.	9.3	8.5	9.2	1/
Aid from other countries	n/a	n/a	n/a	
Total foreign debt	121,174	112,885 1/	110,716	1/
Annual foreign debt service	14,116	15,564	1,724	7/
Foreign exchange reserves				
Cash concept	4,433	5,359	6,665	8/
Internat'l liquidity concept	7,458	9,140	9,775	8/
Balance of payments b/	-2,987	6,977	133	1/

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1/ forecast
2/ as of August 1989
3/ as of July 1989
4/ January-September 1989
5/ January-August 1989
6/ January-July 1989 (data from USDOC)
7/ January - March 1989
8/ as of April 1989

Sources:

a/ FIBGE (Brazilian Institute of Geography and Statistics Foundation)
b/ Debt and foreign reserve figures from BACEN (Central Bank of Brazil)
c/ Brazilian "Cenarios" newsletter (Editora BBT LTDA)
d/ FGV (Getulio Vargas Foundation)
e/ CACEX (Foreign Trade Department of the Bank of Brazil)

1. General Policy Framework

Brazil has traditionally pursued an autarkic, import-substitution, government-led development policy. The heavy foreign debt (currently approximately $110 billion) has increased this tendency. To meet its payment obligations, the Government encourages exports through subsidies and incentives. Although there is a large private sector which dominates light and medium industries, the State owns a great deal of heavy industry and utilities, such as steel, electricity, petroleum and basic chemicals, comprising 52 percent of GDP, through 187 major parastatals. Government regulation is pervasive, touching virtually every aspect of the economy, but it is especially significant in imports, foreign investment, and incentives.

Brazil's fiscal policies have resulted in chronic public sector deficits, attendant growth in domestic and foreign debt, and significant growth of the "parallel economy." The deficits, financed through the sale of government securities, are a leading cause of high inflation. Despite a six-month price/wage control program from January to June 1989, the inflation rate from January through October was 759 percent.

Reducing the deficit has proven difficult in the face of the legislative branch's unwillingness to adopt unpopular anti-inflationary measures, such as tax increases, the elimination of subsidies, and privatization of state enterprises. The deficit target for 1989 of 2 percent of GDP was not reached. Current official government estimates place the operational deficit in 1989 at 6.5 percent of GDP. In an attempt to maintain a favorable trade balance and boost development, Brazil has erected formidable barriers to imports, in the forms of a system of high tariffs, a list of products which cannot be imported, a discretionary import licensing system, and company and sectoral import quotas. In September 1989, the Customs Policy Council announced a reduction in tariffs from an average of 41 percent to an average of 35.5 percent. This reduction, which primarily affects capital goods not currently produced in Brazil, is aimed at making Brazilian firms more competitive in the world market. There have also been periodic announcements that the number of prohibited items would be decreased again, but to date the Government has not announced any cuts from the approximately 1200 products still on the list.

The budget deficits and the need to service a heavy load of inflation-indexed public domestic debt force the Government to borrow heavily. The Government has had little problem in rolling over its domestic debt so far, but the maturity profile demanded by domestic money-market investors is short, and volatility is increasing. Much government paper is traded in what is literally an "overnight" open market. The Government offers high real interest returns of 2 to 3 percent per month to attract investors and to keep them from turning to inflationary investments in real assets.

2. Exchange Rate Policies

Brazil has two legal exchange rates pegged to the value of the U.S. dollar--the official rate and the tourist rate. There is also the government-tolerated "parallel" rate that exists as a speculative device and is quoted in most of the large newspapers. The Government maintains its trade competitiveness by daily mini-devaluations of the so-called "new" cruzado based on the official cost-of-living index. The official rate is used for most financial and trade transactions--with the exception of remittances for imported computer software. The tourist rate is used mainly for dollar purchases by inbound and outbound Brazilian tourists, but also for software. U.S. dollars trade on the tourist and parallel markets at substantial premiums.

3. Structural Policies

Pricing Policies: The Government of Brazil possesses wide authority to apply price controls to nearly all products and services; price freezes have been used frequently as part of the Government's inflation-fighting policies. Price controls have been applied particularly to state-sector products, such as steel, electricity, and basic services. Price controls do not discriminate against foreign investment, but established foreign investors in Brazil--notably but not exclusively in the auto and pharmaceutical industries--have publicly complained that inflexible price controls have occasionally forced them into unprofitable production and reduced investment levels. In a recent attempt to maintain a constant supply of goods to the market and yet hold back hyperinflation, representatives of government and the private sector agreed to allow monthly price increases only up to 90 percent of the official inflation index. It is unlikely that this gentlemen's accord will last for very long.

Tax Policy: The major taxes include personal and corporate income taxes, a value-added tax on industrialized products, tariffs, a state-level tax on the circulation of goods which acts as a sales tax, and a 25-percent tax on credit operations and exchange and insurance transactions. Income tax evasion and non-compliance are endemic. And, although there were rumors of a reform of the income tax system in 1989, nothing has been done that will affect the average taxpayer. The Finance Ministry, however, has proposed for Brazilian Congressional approval increased taxes on capital gains and large personal fortunes. Tax policies have a decided impact upon foreign trade. Brazilian firms receive generous tax breaks on corporate income derived from exports--3 percent versus 35 percent for normal income. Domestic value-added taxes are levied on most imports as well as domestic goods, but not on exports.

Regulatory Policies: Brazilian production and quality standards do not in themselves appear to constitute a barrier to foreign exports.

4. Debt Management Policies

There is a widespread perception that the shortage of exchange reserves was a factor in recent hyperinflation in Argentina. Therefore, the Sarney Administration seeks to maintain a healthy level of foreign exchange reserves to bequeath to the following Administration scheduled to take power in March 1990. Top policymakers hinted that Brazil might have to delay interest payments due to foreign commercial banks in September 1989, unless a special "interim IMF agreement" guaranteeing an influx of "new money" could be negotiated before then. No agreement was reached, and the $1.6 billion due was not paid. While Brazil is currently not meeting commercial bank payments, it is essentially current on debt payments due Paris Club agencies with short intermittent delays and the international financial institutions. Brazil's foreign debt is approximately $110 billion, and annual debt service absorbs nearly one-third of normal export earnings. The Government has repeatedly stated that the need to service the foreign debt is one of the reasons Brazil maintains a relatively closed import regime.

Nevertheless, even prior to the so-called debt crisis, Brazil maintained lofty import barriers which were often defended on import-substitution grounds. Brazil has expressed a strong interest in participating in a debt-reduction program, along the lines of the Brady Plan.

5. Significant Barriers to U.S. Exports and Investment

Brazil maintains comprehensive, complex, and overlapping import restrictions, making it impossible to isolate the effect of any particular barrier on specific products or the overall impact on U.S. trade. The most important barriers include:

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Prior Import Licensing: The Government of Brazil requires licenses for virtually all imports. Importers must register with the Foreign Trade Department (CACEX) of the Bank of Brazil and must obtain a license from CACEX before embarkation of the import. Although in 1989 importers reported an improvement in the time it takes to get a license, there is no guarantee that their petitions will continue to be treated expeditiously. CACEX is not bound by a transparent licensing process with a fixed timetable. A primary justification given for licensing is the need to control imports to assure a favorable trade balance and sufficient foreign exchange reserves to service Brazil's foreign debt.

The licensing procedure also allows CACEX an opportunity to enforce the vague body of laws known collectively as "the law of similars." CACEX has the authority to refuse import licenses for products which are produced or can be produced in Brazil, i.e., products for which there exist national "similars." Although the rules provide that the similarity test is required only if the importer is a government entity and/or wishes government benefits or incentives, in practice the test is widely applied. This widely-publicized policy clearly limits U.S. exports but in an unmeasurable way. Companies aware of the situation may not even bother to petition to import products that are produced in Brazil. On the other hand, companies that persist frequently find creative ways to get licenses--downplaying elements competing with Brazilian products has become notably effective.

CACEX also maintains a list of products (euphemistically called "the list of temporarily suspended items") which cannot be imported. It currently numbers some 1200 products, including cattle, automobiles, shoes, beer (but not other alcoholic beverages), and electronic games. The Government has periodically announced that it would reduce the number of items on the list in 1989, but so far nothing has changed. The most recent government statements indicate that the list will be reduced early in 1990.

The Brazil-Argentina Economic Integration Agreement of 1986, with further protocols signed in 1987, 1988, and 1989, allows preferential access for certain Argentine exports by facilitating import licenses. Recent protocols exempt capital goods, automobiles, and processed food products from import duties and taxes. Operation of Brazil's import-licensing program, including its use to implement quantitative restrictions, has restricted U.S. exports to Brazil, particularly textiles and apparel, Consumer products of many kinds, steel products, some products incorporating digital technology, auto parts, process control valves, certain general-aviation aircraft, machine tools, roller bearings, batteries, and non-bulk agricultural products. A sustained relaxation in the restrictiveness of Brazil's import licensing policies would lead to major increases in U.S. exports.

Services Barriers: Restrictive Brazilian investment laws, lack of administrative transparency, restrictions on remittances, arbitrary application of regulations and mandatory Brazilian "partners" limit U.S. services exports. Trade possibilities in services are greatly affected by limitations on foreign capital participation in some services. Extensive barriers exist in the following service sectors: accounting, advertising, media ownership (print, radio, and television), transport (domestic air, water, and land), construction, health and medical, insurance, leasing, engineering, telecommunications, data processing, and information services. There are recent indications that telecommunications, energy, and domestic air transport could be opened to foreign investment in the near future.

Following are key concerns:

Construction: Foreign companies, particularly construction engineering firms, are prevented from providing technical services for domestic projects, if Brazilian firms are able to provide the same services. The only exception applies to projects using World Bank funds.

Insurance: Several government regulations effectively cause all exporters to insure with Brazilian companies. All reinsurance in Brazil must be purchased from the Government reinsurance monopoly, denying U.S. reinsurers full participation in the local reinsurance market. Requirements for withholding insurance premium against outstanding loss reserves also expose U.S. reinsurers to serious exchange losses. Brazilian regulatory policy precludes the issuance of new licenses.

Data Processing: Data cannot be transmitted outside the country for processing abroad. Only Brazilian-owned information service enterprises may provide services to the Government. The State telecommunications monopoly gives preference to Brazilian equipment suppliers.

Motion Pictures/Video Cassettes: The U.S. motion picture industry has identified the most significant trade barriers as follows: (a) color feature films distributed for theatrical exhibition and all films distributed for television broadcast must be printed in one of two Brazilian laboratories; (b) a Brazilian short subject must be shown with any foreign feature; (c) video piracy remains common; and (d) at least 25 percent of the titles released for home video by video cassette distributors must be Brazilian (given the limited number of Brazilian titles, this requirement acts as an indirect import quota despite a flexible interpretation of the rule in recent years).

Specific Sectoral/Product Areas: "Informatics" is broadly defined to include computers and parts, and all other devices incorporating digital technology (i.e., communications switching equipment, process controls, and optical and electronic components), as well as software, services and related investment.

Hardware: In 1984 Brazil passed the National Informatics Law, which restricts imports and reserves production and sales of micro- and mini-computers and equipment containing these computers exclusively to Brazilian-owned firms and restricts imports through 1992. Despite recent signs of liberalization, technology-based joint ventures have been virtually precluded.

Software: Market-reserve provisions include: (1) the national similars test (product commercialization is prohibited if a comparable Brazilian product exists); (2) the requirement to use a Brazilian distributor and have the resulting contract approved; and (3) possible non-renewal after three years of commercialization approval, if a Brazilian "similar" exists at that time. A Section 301 case, based on U.S. Government concerns about the market-reserve policy, investment restrictions, administrative reforms, and software copyright protection was terminated on October 6, 1989 after four years of negotiated liberalization and the adoption by the Brazilian Government of a software copyright law.

Investment Barriers: Brazil restricts and discriminates against foreign direct investment, which is explicitly prohibited in several sectors. These sectors include petroleum production and refining, public utilities, the various communications media, real estate, shipping and diverse "strategic industries" of importance to the long-term technological development of Brazil. Brazil's new Constitution allows for legislation to favor nationally-owned companies over foreign companies where government bids are concerned. The Constitution bars majority foreign participation in direct mining operations, new hydrocarbons risk-contracts, and foreign investment in health-care services. Moreover, indirect measures such as price controls, application of laws and regulations, technology transfer requirements, limitations on royalty payments, remittance controls, import restrictions and lack of intellectual property protection deter foreign investment.

Local-content Requirements: Brazil has long maintained local-content requirements for manufactured products. Some are set informally, others established in regulation. Industries affected include the automotive, consumer electronic, and transport-equipment industries. Increasingly, the capital goods sector for steelmaking, railroads, construction, and electricity generation also are covered.

Eligibility for Brazilian incentive programs--preferential tax treatment, financing, and import duty incentives--is tied to performance requirements. Brazil uses the national similars test to increase local content. Local-content requirements were recently eased, especially in the Northeast and Amazon regions.

Quantitative Restrictions: Since 1980, Brazil has imposed company and, in some cases, sectoral import quotas. At the beginning of each year, firms wishing to import products valued at more than $100,000 are required to submit a planned import program to CACEX. In general, import level approval is based on a review of the previous year's imports and the company's expected level of exports. The Government recently removed quantitative import-level limits for fixed assets and raised limits for goods imported for reprocessing (up to 130 percent of the 1988 import program for 1989) and for goods imported for direct resale (for 1989 up to 120 percent of the 1988 import program). These limits are set at the discretion of CACEX. Brazil also sets annual import quotas on certain industrial sectors, including informatics, and on total imports for the Manaus Free Trade Zone. The Government has significant discretion to adjust the annual quotas and has not hesitated to tighten or loosen the controls to reflect economic and balance-of-payments conditions. Although many companies have been able to increase their quotas in 1989, company and sectoral quotas remain potentially significant barriers to increased imports.

Financing Restrictions: Brazil has long required supplier-financing for imports of capital goods, required when shipments from a foreign supplier exceed $200,000 per year. The recent easing of financing requirements (minimum levels were raised) should encourage Brazilian imports, particularly from U.S. suppliers and others who extended only short-term trade credit following Brazil's debt moratorium in 1987. The negative impact of these provisions has been magnified by Brazil's debt problems and the absence, until recently, of official government export financing.

Import Tariffs: In September of 1989, the Government reduced tariffs of several thousand items; the average tariff rate dropped from 41 to 35.5 percent. In spite of this move, Brazilian tariffs remain high by developed-country standards--with some as high as 85 percent. The admitted aim of the Government in cutting tariffs is to stimulate Brazilian competitiveness within world markets by lowering input costs, modernizing the industrial base, and increasing capacity. However, while tariffs have generally been reduced, so have the numerous tariff reduction exceptions previously granted.

Government Procurement Practices: The federal, state and municipal governments, and related agencies and companies, buy a broad range of products and tend to follow a strong "buy national" policy. A large portion of the imports destined for state enterprises and those imported with special benefits must be transmitted on Brazilian ships (or U.S. vessels for imports originating there). The new Constitution mandates preferential treatment for "Brazilian companies with national capital," although it has not yet statutorily defined this treatment. If U.S. firms were allowed to compete freely, however, U.S. exporters could have significant market opportunities.

Countertrade: Although Brazil has not articulated a formal countertrade policy, countertrade appears to be increasing and could displace U.S. exports to third-country markets. Brazil presently trades iron ore for hydroelectric turbines with Czechoslovakia. Soviet mining machinery will be reimbursed by ferromanganese exports. Offsets were an important factor in 1988 bidding to supply helicopters to the

Brazilian army. The Brazilian state oil firm, Petrobras, actively promotes countertrade through its trading subsidiary, Interbras, especially with the Soviet Union, Eastern bloc countries, and recently with Iran, and attempts to obtain countertrade agreements on foreign oil purchases. Brazilian exports under such agreements cover the full range of manufactured and raw materials.

Ocean Shipping: Brazil and the United States have an agreement giving ships of each country equal access to liner cargoes subject to government control in the other country. Third-flag shipping lines, however, cannot carry Brazilian imports under government control. Exports of coffee and cargoes must also travel on the shipping lines of government-approved conferences.

6. Export Subsidies Policy

Brazil maintains a large number of export subsidy programs that benefit Brazilian exporters of manufactured and agricultural products. CACEX operates the Fund for Financing Exports (FINEX) program, which provides medium-term dollar and cruzado export financing at agreed rates to exporters of Brazilian products. There are no stated limits on the total FINEX funding, and any exporter may qualify for the program. The program buys down the export credit rate from commercial bank interest levels to standard rates for various repayment terms. In comparison with the minimum OECD rates, FINEX provides large export credit subsidies, which are unavailable to U.S. manufacturers from commercial sources. Brazilian exports to the United States eligible for medium- and long-term financing total $1 billion; actual exports financed is unknown.

Since 1972, the Commission on Fiscal Incentives for special export programs (BEFIEX) has stimulated and subsidized exports by offering import-duty reductions and other fiscal benefits in return for company commitments to meeting specific export targets. In exchange for entering into an export performance commitment, a company could obtain export subsidies, tax and duty exemptions, and reductions for imports of capital goods and inputs used in producing exports. In return, the company had to maintain a three-to-one ratio of exports to imports values. Foreign-owned firms account for the largest contracts and 60 percent of the total export value. Currently 400 firms have BEFIEX contracts with export commitments of $87 billion, a problematical amount of financing given Brazilian fiscal problems.

Other export subsidy programs which the United States has cited as countervailable are export credits and the tax rebates of the industrialized products tax (IPI), preferential working capital financing for exports, and preferential short-term export financing. U.S. investigations, however, have shown a general decline in the level of subsidization. Although the IPI and merchandise-movement tax (ICM) credit programs under BEFIEX ended December 31, 1989, the Government may grant awards beyond that date to exporters who signed firm contracts before the end of the year.

Export Targeting: Although Brazil has not historically engaged in specific export targeting, this policy may be changing. New programs are under consideration to increase exports of consumer electronics and household appliances to the United States.

7. Protection of U.S. Intellectual Property

Brazil is a party to the Berne and Universal Copyright Conventions and to the Patent Cooperation Treaty.

Brazil's copyright and related laws, although the United States believes them to be inadequate, generally conform to world standards. The Software Law of 1987 extended explicit copyright protection to computer software. Government enforcement has improved, but unauthorized public performances of motion pictures, piracy of video cassettes and records, unauthorized translations of literary works, and software piracy continue. Brazil does not support efforts to strengthen intellectual property rights in the international fora, such as the Uruguay Round of the GATT.

As of January 1990, Brazil is one of five countries remaining on the U.S. Trade Representative's "Priority Watch List" for inadequate protection of intellectual property rights, cited under the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act.

Patents and Trademarks: Brazil does not provide either product or process patent protection for metal alloys, chemical compounds, food and chemical/pharmaceutical substances, or biotechnological inventions. Method-of-use claims in patent applications are also generally not allowed and, if issued, are almost impossible to enforce. Brazil requires a patent or trademark owner to work the patented invention or trademark in Brazil. A third party may request a compulsory license if a patent owner has failed to work the patent within three years of patent issuance or if exploitation has been discontinued for more than one year. Brazil lacks adequate legal protection for trade secrets.

Pharmaceuticals: Since 1969, Brazil has denied both process and product patent protection to fine chemicals and pharmaceutical products. This lack of protection enables Brazilian producers to import and copy constituent materials, as well as finished products, without the burden of recovering research and development costs. In some instances, foreign companies are not authorized to import products similar to pirated products produced in Brazil. Based on a Section 301 action initiated by the Pharmaceutical Manufacturers Association in October 1988, the United States imposed trade sanctions of $39 million per year against Brazil for lack of pharmaceutical patent protection. The issue is currently in dispute settlement at the GATT in Geneva.

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Copyrights: Pirated video cassettes account for approximately 50 percent of the Brazilian market (40 percent in Sao Paulo, 60-70 percent elsewhere) despite more vigorous enforcement efforts. The U.S. motion picture industry claims frequent unlicensed exhibitions of its products occur in both small towns and urban condominiums. Problems with remittances for software royalties or imports, along with a "national similars" policy precluding sales of foreign computer software if a Brazilian equivalent exists, encourage piracy and the illegal importation of foreign software.

New Technologies: Biotechnological products or processes are not covered by Brazil's patent law.

8. Worker Rights *

a. The Right of Association

Brazilian workers enjoy the right to associate in organizations and select their own leaders in free union elections with one important restriction: there cannot be multiple unions representing the same profession in the same geographical area. The unions participate actively in the country's political life.

b. The Right to Organize and Bargain Collectively

Since 1983, independent and rival trade union centrals have emerged, focussing attention on labor-related issues. Collective bargaining between labor and management is becoming increasingly commonplace and gradually replacing the normative role of the labor courts--an institutional legacy established during Brazil's corporatist period.

c. Prohibition of Forced or Compulsory Labor

Despite Government assertions that it is taking steps to halt compulsory labor, there have been repeated charges that the practice continues in Brazil. Church representatives charge that slave work forces are compelled to help clear the jungle deep in the Amazon. Critics accuse state and federal authorities of failing to investigate reports of forced labor.

d. Minimum Age for Employment of Children

Fourteen is the minimum working age under the new Constitution, except for apprentices; and numerous legal restrictions have been approved to protect working minors under 18. Under Brazilian law, permission of parents or guardians is legally required for minors to work, and provision must be made for them to attend school through the primary grades. In practice, however, these laws do not prevent the employment of millions of children and adolescents who can be seen working on the streets in every city in Brazil.

e. Acceptable Conditions of Work

The Constitution guarantees a minimum salary "able to satisfy the vital basic necessities of the worker and his family." Nevertheless, real worker income falls short of this standard. Brazilian workers also suffer one of the highest work-related accident rates in the world--an average of 17 fatalities daily. As this figure reflects only workers officially covered by the social security system (23 million of a work force of 50 million), it understates the actual total.

f. Rights in Sectors with U.S. Investment

Firms with U.S. investment conduct their operations with respect for Brazilian law. Salaries paid tend to be the best in each category; workers receive fringe benefits and medical assistance; and the workweek is usually shorter. Labor/management practices tend to be professional, focussing on conflict resolution through collective bargaining with recognized employee union representatives. Foreign firms have been criticized, however, for using products or following procedures that are prohibited in their home countries.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		244
Total Manufacturing		9,004
Food & Kindred Products	506	
Chemicals & Allied Products	1,739	
Metals, Primary & Fabricated	977	
Machinery, except Electrical	1,739	
Electric & Electronic Equipment	477	
Transportation Equipment	1,308	
Other Manufacturing	2,365	
Wholesale Trade		44
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		9,292

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Brazil country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

CHILE

Key Economic Indicators

(Millions of 1977 Chilean pesos unless otherwise noted)

	1987	1988	1989 (proj)	
Income, Production, and Employment ($1.00/Ch pesos 26.54) 1/				
Real GDP	398,230	427,530	464,104	
Real GDP growth rate (pct)	5.7	7.4	8.5	
Real GDP by sector				
Agriculture/livestock/forestry	34,781	36,780	37,883	
Fishing	3,527	3,618	4,251	
Mining	31,525	32,853	34,758	
Manufacturing	82,804	89,997	98,547	
Electricity/gas/water	10,117	11,060	11,314	
Construction	23,056	24,454	26,410	
Trade	67,635	74,235	83,440	
Transport/communication	23,755	26,485	29,849	
Other	121,030	128,048	137,652	
Real per capita income (Ch pesos)	31,765	33,536	35,800	
Labor force (000s)	4,354	4,552	4,570	2/
Unemployment rate (pct)	7.9	6.3	6.7	2/
Money and Prices				
Money supply (Ml)	195,139	270,140	316,652	
Commercial interest rates (pct)				
Deposits (monthly rate)	1.89	1.17	2.28	
Loans/discounts (monthly rate)	2.40	1.61	2.73	
Gross domestic saving	21.0	24.2	26.0	
Investment rate	16.9	17.0	16.3	
Consumer price index	21.5	12.7	20.0	
Wholesale price index	17.1	3.3	20.0	
Exchange rate (Ch pesos/$1.00)				
Official	219	245	265	
Parallel	230	281	N/A	
Balance of Payments and Trade (mils current $ unless noted)				
Total exports FOB	5,102	7,052	8,000	
Exports to U.S.	1,105	1,393	1,600	
Total imports CIF	4,023	4,833	6,500	
Imports from U.S.	796	1,002	1,300	
Aid from U.S. 3/	4	7	2	
Aid from otner countries	n/a	n/a	n/a	
External public debt	19,208	17,649	16,798	
Annual debt service (paid)	1,700	1,522	1,560	
Gold and forex reserves	n/a	n/a	n/a	

1/ National accounts are only in 1977 Chilean pesos for these years. Translating these figures into 1977 dollars distorts the structure of GDP. However, GDP and real per capita revenue in current dollars are available. They are:

GDP (bils $)	18.4	22.1	24.0
Real per capita income ($)	1,465.0	1,750.0	1,883.0

2/ June-August 1989 period. 3/ figures for fiscal years.

CHILE

1. General Policy Framework

Chile's export-driven economy is based upon an open trade regime. The country currently is in its sixth year of expansion driven by maintaining open markets and a competitive exchange rate. Although the objective of Chile's trade policies is to expand exports faster than imports, the country has opted not to erect trade barriers to balance its foreign accounts. Rather, Chile has employed a variety of approaches intended to help it grow out of its problem. Externally, Chile has handled its debt service problems through multi-year debt reschedulings with private creditors, debt equity swaps and debt buy backs in conjunction with IMF and World Bank programs. Innovative debt conversion mechanisms have lowered the overall debt burden while revitalizing the private sector. Still, Chile faces a massive external debt of around $17 billion which requires a continued infusion of external funds. Although Chile continues to run current account deficits, capital inflows have resulted in balance-of-payments surpluses since 1988. For example, Chile has attracted foreign direct investment by shoring up investor confidence with strict monetary and fiscal policies.

Chile's economy grew by an estimated 10 percent in 1989. The main engines of growth--the mining, agricultural, forestry, fisheries and manufacturing sectors--have also propelled the construction and utilities sectors. These policies have in turn generated new jobs, decreasing unemployment to its lowest point since the 1982 debt crisis. Chile's open markets probably will help most sectors to avoid severe bottlenecks over the next several years. Additionally, the financial system now supports private and government investment with long-term financing.

Chile's public finances are balanced. The Government of Chile has run very small deficits (0.3 percent of GDP) over the last two years. The Government's main revenue sources derive from a flat 16 percent value-added tax, an overall 15 percent import tariff, excise taxes, personal and business income taxes, and income from state enterprises. Revenues in 1988 increased significantly due to higher than expected receipts from copper exports and tariff payments on a nearly 30 percent increase in imports. From 1982 through 1987, Chile financed its deficit by borrowing from the Central Bank, despite constitutional provisions to the contrary. Starting in December 1989, the Government will have to go into commercial markets, since a new law prohibits the Central Bank from lending to the public sector.

Another integral part of the Government's goals to reduce the size of the state has been the privatization of some of the largest state enterprises in the country. A few state enterprises are left and some of these the Government has targeted for auctioning. However, one of Chile's largest state enterprises, the National Copper Corporation (CODELCO), will not be sold.

CHILE

Monetary policy over the past two years has been highly variable. Until mid-1988, the Central Bank tried to keep spreads on domestic and international interest comparable through open market operations. In the months leading up to the October 1988 plebiscite, the Central Bank switched to an expansionary policy and allowed the money supply to grow rapidly, which led to a increase in incomes and consumption. Nominal M1 was up almost 60 percent by the plebiscite, and from late 1988 through mid-1989, the Central Bank focused on monetary aggregates, progressively cutting back on M1 growth. Starting in June 1989, commercial interest rates rose far above Central Bank paper, and thus the Bank encountered increasing difficulties in controlling the money supply through open market operations. On December 9, 1989 the Central Bank began functioning as an autonomous institution and now sets its own policies.

2. Exchange Rate Policies

The Central Bank maintains a crawling peg exchange rate system which devalues the exchange rate based on the difference between domestic and international inflation. This difference normally pushes upwards the nominal value of the currency on a monthly basis. On a trade-weighted basis the peso reached its most competitive point in mid-1988. The Central Bank allowed the peso to revalue during the second half of 1988 and first half of 1989, during which time the peso gained nearly 15 percent on a trade-weighted basis (i.e., imports became cheaper). This turned out to be a boon for U.S. exports, especially since demand for capital goods was on the upswing due to major investments in mining and forestry. The Bank resumed its policy of devaluation during June 1989, and the peso quickly regained most of the lost competitiveness. The legal parallel rate, reflecting a variety of supply and demand factors, especially political uncertainty in 1988 and 1989, has run as much as 20 percent higher than the official rate. Foreign exchange purchases and liquidations, while virtually automatic, are controlled by the Central Bank. There is also a 120-day waiting period for payment of imports by the Central Bank.

3. Structural Policies

Pricing Policies: One important leg of Chile's adjustment policy is promotion of structural change. Chile has used money from the World Bank to improve its economic infrastructure (roads, electric generation, etc.) thus offering direct support to exporters by lowering in-country transportation costs and by providing reliable low-cost energy supplies. In addition, the Government of Chile has introduced a series of measures to aid exports, such as expediting return of value-added taxes, in-bond warehouses, 10 percent drawback on small nontraditional exports, etc.

In general, the Government does not interfere in Chile's markets and does not have specific pricing policies. Although the Government has a "buy Chile" policy, in practice state enterprises purchase at the lowest possible price, regardless of the sourcing of the material. U.S. exports enter Chile and compete freely with other imports and Chilean products. Import decisions are almost always related to price competitiveness and product availability.

Tax Policies: The most significant tax is the value-added tax, which affects all sales transactions carried out within Chilean borders. There is a 15 percent ad valorem duty on all imports. In general, personal income taxes are low and generally paid by the population. Business taxes are similar to those levied in the United States.

Regulatory Policies: Government regulation is minimal by Latin American standards. The main areas of regulation are the financial sector, utilities, and securities markets. There are no overall government regulations that affect the market for U.S. exports to Chile. The direction of investment is influenced by the Government mainly in the construction industry. Large infrastructure projects as well as housing programs financed by the Government affect the direction and size of investment.

4. Debt Management Policies

The principal problem facing the Chilean economy is its heavy external debt burden. Despite retiring $8 billion in debt over the last five years in its successful swap program, new multilateral bank borrowings and extensions of trade credits have blunted the overall drop, leaving Chile's debt at $17 billion (including IMF credits). The Central Bank successfully bought back $330 million of debt in November 1988 and bought back another $140 million in an offering in November 1989. A series of Chilean initiatives and some good luck have temporarily relieved the pressures of foreign exchange strains on the country's economic growth.

Chile has been a model for other debtor countries by working out multi-year debt reschedulings with private creditors in conjunction with an IMF extended fund facility and three completed World Bank structural adjustment programs. The Paris Club has twice rescheduled Chilean debt, generally following the terms offered by commercial lenders. The effect of higher copper prices increased official reserves by $400 million in 1989. Under the second structural adjustment loan from the World Bank, Chile set up a copper stabilization fund that is triggered when the price of copper exceeds by five cents a bench mark price agreed to at the beginning of each year (84 cents in 1989).

Although Chile has coped well with its debt, several problems loom on the horizon. For example, a change in nominal international interest rates could cause balance-of-payments problems in 1990 and beyond. (A one percentage point increase in LIBOR adds about $150 million annually to the Chilean debt service bill.) Chile also faces the prospect of resuming debt amortization in 1991. Although this is a potentially troublesome event, the burden caused by resumed amortization could be significantly lessened through arrangements with commercial bank creditors. Chile's open economy depends heavily on commodity exports and is vulnerable to external shocks. Copper has been notorious for wide swings in prices through the business cycle. (A one cent change in the average annual price of Chile's copper exports alters export receipts by approximately $33 million and Treasury receipts by about $23 million.) Similarly, prices for other important exports such as pulp and fish meal are highly cyclical. A confluence of rising interest rates and falling export prices could cause Chile's debt problems to worsen.

5. Significant Barriers to U.S. Exports and Investment

Chile generally has few barriers to U.S. exports. Foreign firms operating in Chile enjoy the same protection and operate under the same conditions as local firms do. However, treatment of some areas varies from this norm.

Import Licenses: There are no legal restrictions on licensing, but imports must carry an "informe de importacion" issued by the Central Bank, which can normally be obtained and processed through the local commercial banking system. Payment for visible trade transactions is not permitted unless the "informe de importacion" has been issued. The Central Bank, through an unwritten agreement, confers with the Ministry of Agriculture's planning section when requests for corn or wheat imports exceed the import estimates made by the planning section early in the year. The planning section can hold up approvals of the "informe de importacion" and thereby delay or limit imports until the importer can provide satisfactory reasons why he needs to import the commodity rather than buy locally, or explain why his demand is greater than the planning agency's estimate. A proposed law to modify Central Bank operations will eliminate this requirement for consultation with the Ministry of Agriculture prior to issuing import licenses. This will open up the market for increased imports from the European Community and Argentina.

Investment Barriers: Trade-related investment measures are only applied to the automobile industry. A U.S. manufacturer (GM), plus a European manufacturer (Renault), benefit from additional import protection (provided in exchange for export requirements).

Principal Tariff Barriers: The Central Bank establishes minimum import prices for all imports and exports commodities to guarantee a minimum tax revenue for each item and prevent tax cheating, i.e., registering import value at $10 and paying a smaller tax than on the actual $20 cost. Chile's custom duty rate is presently a uniform 15 percent ad valorem (CIF). Automobiles and trucks are major exceptions. Import surcharges also apply on products which are thought to receive a subsidy from the exporting country. These surcharges may range from 5 to 20 percent under Chile's GATT-bound tariff ceiling. In practice, only two products have surcharges of five percent--corduroy and tires. The importer also must pay the value-added tax (VAT) of 16 percent, figured on the CIF value plus the 15 percent duty. The total cost is thus raised by 33.4 percent over CIF cost.

Since 1983, Chile has maintained an "import price band system" for wheat, vegetable oils and sugar. The system employs a surtax that is levied on top of the across-the-board 15 percent duty. Traditional U.S. exports of agricultural goods suffer from this import protection. As a result of import prices imposed in 1985, U.S. exports of wheat fell to $19.7 million in 1986, down from $159 million in 1983. This surtax brings the import price of wheat up to a minimum price level (floor band). The floor band of $180 per metric ton was increased to $187 per metric ton on December 16, 1989. The combined effect of the surtax and the 15 percent duty varies according to international prices. For example, at the international price prevailing in June 1987 ($117 per metric ton), the ad valorem tariff is 53 percent. This dropped to 50 percent (at the June 1987 wheat price) in December 1987. Actual international prices are above the floor, making the surtax irrelevant. (The floor price is triggered at $130-135 per ton and present international prices border on this.)

Government Procurement Practices: Although the Government has a "buy Chile" policy on the books, which calls for all state-owned companies to favor locally-produced goods when conditions of sale (price, delivery times, etc.) are equal to or better than those of equivalent imports, it has not been applied. The original intent was to assist local manufacturers and to reduce unemployment. However, a large number of product categories are not manufactured in Chile and purchasing decisions by state-owned companies will continue to be made among competing imports. Requests for public and private bids are published in the local newspapers.

Import Financing: Chile requires importers to wait at least 120 days before receiving payment from the Central Bank. This requirement can add as much as 5 to 6 percent to the import cost. The terms of Chile's IMF extended financing facilities call for removal of this requirement.

6. Export Subsidies Policies

In general, the Government of Chile does not subsidize exports. The Government does not provide exporters with direct or indirect support such as preferential financing, multiple exchange rate systems or export promotion funds. The key element in Chile's export promotion drive has been the maintenance of a competitive real exchange rate and low and uniform tariffs. Since 1985, the Government has carried out several new export promotion measures including tax and tariff benefits to exporters. Among these are a duty drawback scheme for some small nontraditional exports, quicker turn around on value-added tax rebates to exporters, elimination of a stamp tax on credit operations, and expansion of bank credit limits to exporters. Also, the Government has instituted measures to promote efficient import substitution through, for instance, the implementation of a deferred tariff payment system for capital imports. The 10 percent drawback scheme has directly benefitted small exporters.

7. Protection of U.S. Intellectual Property

Chile is a party to the Berne and Universal Copyright Conventions but has not signed any major patent accords.

As a matter of policy, the Chilean Government recognizes the need to protect intellectual property rights within the context of an open market system and to maintain a favorable investment climate. However, Chile's 1931 Patent Law specifically excludes pharmaceuticals, beverages, foodstuffs, chemical preparations, reagents and combinations from patent protection. Chile does provide process patents for pharmaceuticals. In addition, Chile's copyright law does not measure up to international standards. The term of protection is the author's life plus 30 years compared to the general standard of author's life plus 50 years. These circumstances caused the U.S. Trade representative to include Chile on its 1989 "Watch List" of countries judged to have inadequate intellectual property rights protection, under the Special 301 provisions of the 1988 Omnibus Trade and Competitiveness Act.

Patents: U.S. pharmaceutical companies have complained that, in the past, Chilean firms have been able to expand their market share by selling copied drugs obtained from third-country markets at prices substantially below those of U.S. research based firms. Moreover, new drugs introduced to the Chilean market are required to present comprehensive laboratory testing and registration. Copied drugs or compounds of those which have been approved are exempt from these requirements. Chile passed in late January 1990 a law which should provide effective patent protection for pharmaceutical products.

Generally, pharmaceuticals had been the primary issue for intellectual property rights protection. Video and audio tapes have been protected by Chilean law within the last few years. No major problem currently exists in the food and drink industry regarding lack of patent protection (here process protection is available, although product patent protection is not).

8. Worker Rights *

a. The Right of Association

Most aspects of labor rights are codified in 12 laws passed in 1987. Unions can register freely with the Ministry of Labor, but national confederations are prohibited. The Government has brought charges against union leaders for calling nationwide strikes to protest labor conditions and political repression. Many of these charges remain pending in the courts for long periods of time.

b. The Right to Organize and Bargain Collectively

Workers in Chile have the right to form unions and bargain collectively. At the end of 1988 there were 6,446 unions covering 446,194 workers (10 percent of the labor force). In 1988, according to the Ministry of Labor, 1,402 collective bargaining agreements were concluded; generally agreements are for two-year periods. Collective bargaining rights in entities with fewer than 25 employees are restricted, and rigid timetables for concluding agreements disadvantage labor unions. The right to strike is limited. In December 1987, Chile lost General System of Preferences privileges because of its practice of denying certain worker rights such as freedom of association and collective bargaining.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is implicitly prohibited in Chile's Constitution and Labor Code, and there have been no complaints on this issue since the mid-1970s.

d. Minimum Age for Employment of Children

Child labor is regulated by law. Young people between 14 and 15 may be employed under restricted conditions only with the parental permission and if they have completed their schooling. Those 15 to 18 can work in a larger variety of labor and at expanded hours, with parental permission. Economic factors have forced many children to seek part-time and full-time employment in areas of the economy which are generally difficult to regulate.

e. Acceptable Conditions of Work

The normal work week is 48 hours long. The minimum wage is approximately $70 per month. Minimum wages, hours of work, and occupational safety and health standards are regulated by law, which permits apprenticeships only at the minimum wage. Laws covering wages and hours of work are difficult to enforce, and there are complaints that occupational health and safety laws are not enforced adequately. Workers have the right to denounce employers who pay less than the minimum wage, and employers can be forced to pay back wages.

f. Rights in Sectors With U.S. Investment

U.S.-owned companies or companies having substantial U.S. investment operate in a manner similar to Chilean-owned companies and are subject to the same Labor Code. There is no appreciable difference among the industrial sectors except those stemming from the nature of the work, e.g., unskilled agricultural workers are paid less than semi-skilled mine workers, and health and safety regulations assume more importance in mines and manufacturing of chemicals than they do in agriculture. In the Chilean goods-producing industries,

CHILE

U.S. investment is primarily in the petroleum, food and related products, chemicals and related products, and wholesale trade sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		71
Total Manufacturing		9
Food & Kindred Products	37	
Chemicals & Allied Products	138	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		32
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		112

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Chile country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

COLOMBIA

Key Economic Indicators

(Billions of 1975 pesos, 1975 peso at 32.96/$1.00)

	1987	1988	1989 (proj)
Income, Production, and Employment			
Real GDP	654.8	679.3	703.1
Real GDP growth rate (pct)	5.4	3.7	3.5
GDP by sector			
Agriculture	140.4	145.0	150.4
Mining	29.8	30.1	32.0
Manufacturing	138.6	141.8	145.1
Construction	25.71	26.0	26.6
Commerce	61.9	64.1	66.1
Transportation	47.4	49.8	51.4
Government services	55.5	59.4	62.4
Other sectors	151.9	156.6	162.2
Real per capita GDP	21608	22032	22494
Labor force (millions)	11.7	11.8	11.9
Unemployment rate	10.2	10.2	10.0
Money and Prices (pcts)			
Money supply growth (M1)	32.9	25.8	28.0
Commercial interest rates (pct)	38-42	40-45	36-42
Savings rate (pct)	19.0	17.8	17.0
Investment rate (pct)	19.31	19.6	19.0
CPI increase	24.0	28.0	26.0
WPI increase	25.2	29.5	30.0
Exchange rate (yr-end)			
Official	263.7	340.0	440.0
Parallel	262.0	340.0	450.0
Balance of Payments and Trade (mils US$)			
Total exports	5,662	5,339	5,758
Exports to U.S.	1,998	1,974	1,900
Total imports	3,794	4,615	5,020
Imports from U.S.	1,515	1,812	1,800
Aid from U.S.	36.7	24.5	n/a
Aid from others	n/a	n/a	n/a
Total U.S. investment	2,199	2,266	2,298
External public debt	12,530	13,061	13,000
Debt service payments	2,428	2,946	3,220
International reserves (net)	3,450	3,810	3,700
Balance of payments			
Current account	329	(353)	(687)
Trade balance	1,868	824	730
Imports	(3,794)	(4,615)	(5,020)
Net services and transfers	(1,539)	(1,188)	(1,420)
Capital account	88	1,200	687

COLOMBIA

1. General Policy Framework

Colombian economic policy for the most part is free-market and private-sector oriented, and has been characterized in recent years by efforts to further reduce governmental regulation. Impelled by deteriorating economic performance during the early 1980s, the Government introduced in 1985/86 a structural adjustment program (informally monitored by the IMF) which featured wide-ranging fiscal, monetary, and trade policy reforms.

In late spring 1989, the Government announced a bold plan for economic opening, designed to create a more efficient economy through a combination of a drastic lowering of import barriers, a special multinational development bank loan program to finance industrial modernization, and investment in infrastructural facilities. Implementation of the plan, scheduled for August 1989, was ultimately put on hold for political reasons.

Significant public sector participation remains in public utilities and the financial sector, although the Government determined in 1989 that most of the largest banks had recovered sufficiently for reprivatization. Two public sector companies also exist for petroleum and coal exploitation, but operate as regulatory bodies and/or in partnerships with domestic and foreign private companies rather than as monopolies. A structure of import and foreign exchange controls remains but the controls are liberally administered, as evidenced by the fact that the parallel foreign exchange market offers very little premium for the dollar.

In recent years fiscal policy has been conservative. A tight rein on spending enabled the Finance Ministry to reduce the consolidated public sector balance from a deficit of 6.8 percent of GDP in 1984 to a slight surplus in 1986. While a larger than desirable growth in expenditures and drop in coffee export and petroleum revenues subsequently have caused a substantial deficit to re-emerge (probably around 2.7 percent in 1989), the Government is beginning to take steps to keep it within prudent limits. Nevertheless, the Government expects to see a further substantial increase in the fiscal deficit in 1990. This will be due in part to much-expanded military operations and other costs associated with the Government's declared "war on narcotics traffickers." Colombia's expenditure for national security as a percentage of GDP remains one of the lowest in the hemisphere. Tax revenues have increased sharply as a result of an overhaul of the tax system in 1986. The Government flexibly uses a combination of domestic and external borrowing to finance the deficit. The World Bank and Inter-American Development Bank are substantial lenders in support of the Government's development programs.

Structural inflation--running in the range of 25 to 28 percent--is one of the most persistent problems for economic policymakers. The main burden for getting inflation under control has fallen on monetary policy. The chief tools of the

Central Bank in controlling monetary growth are open-market operations and reserve requirements. While a significant decline in the inflation rate has so far eluded the authorities, they have shown themselves willing to sacrifice economic growth rate in order to come to grips with the problem. Public sector deficits have generally not been financed by money creation: treasury operations in the recent past have in fact been contractionary.

2. Exchange Rate Policies

The Central Bank administers a crawling-peg daily devaluation of the peso based on a trade-weighted formula designed to adjust for the relative inflation rates between Colombia and its major trading partners. The system has been successful in maintaining the real exchange rate of the peso roughly constant for the past two years at what is generally acknowledged to be an appropriate level. While an overt multiple exchange rate system does not exist, some selective export subsidies, taxes on remittances, and an exchange tax on coffee constitute indirect multiple exchange practices. The foreign reserve level is expected to be around $3.8 billion at the end of 1989, a comfortable 10-months worth of imports. The Central Bank controls all foreign exchange (although exchange certificates and foreign exchange-denominated bonds issued by the Bank circulate in the secondary market). Foreign exchange is provided to importers, and for services payments and foreign travel, within the context of an annual comprehensive foreign exchange budget.

3. Structural Policies

Prices: The pricing system is essentially free-market. The major exceptions are price controls and/or subsidies for a handful of sensitive goods and services such as pharmaceuticals, public transportation and public utilities provided by the public sector. Colombian Government policies regarding the retail prices of certain pharmaceutical products and the permitted import cost of related raw material imports have to some degree reduced U.S. imports and discouraged U.S. investment in this sector. In the agricultural sector, a government procurement agency provides floor prices for a small group of key food crops, while attempting to moderate market price swings for those staples through selective imports. The procurement price for coffee, which has a major macro-economic impact, also is negotiated periodically between the Coffee Federation and the Government. In general, even controlled prices are regularly adjusted to account for inflation.

Taxation: Major sources of revenue consist of personal and corporate income taxes, a value-added tax, and taxes on international trade. The taxes on income and on goods and services each account for about one-third of total revenues, and those on foreign trade for about one-quarter. A major tax reform, introduced in late 1986 to increase equity and efficiency of the tax system, has resulted in substantially increased tax revenues. Aside from a differentiated import duty scale strongly favoring capital goods and intermediate inputs over consumer imports, the most notable special tax incentives are an exemption of duties on free trade zone imports and imports for use in export industries (the Vallejo Plan), and a tax rebate for exporters of certain products in the form of a certificate representing a percentage of the value of an export sale (typically 5 to 8 percent) which can be used to pay taxes. The number of products to which these rebates apply, and the applicable rates have been sharply reduced in the past few years (reflecting, among other things, a more realistic exchange rate), and for the most part they are no longer available on exports to the United States.

Regulatory Policies: Maintenance of a foreign exchange budget and an import licensing system gives the Government extensive control over the import regime, although the system has been substantially liberalized since 1985. The import licensing regime constitutes the greatest impediment to increased imports from the United States. The foreign exchange budget allocation has been increasing sharply, rising from $3.3 billion in 1985 to $5.4 billion in 1989. The proposed economic opening, which was scheduled to further liberalize the import licensing regime and the foreign exchange budget over a four-year period beginning in August 1989, has been put on hold indefinitely pending internal governmental deliberations. The Government makes no effort in practice to restrict a massive black market in smuggled consumer imports, estimated to be in the range of a billion dollars annually, a very high proportion of which consists of consumer products from the United States.

4. Debt Management Policies

Total Colombian external debt at the end of 1988 was $16.4 billion, 43.2 percent of GDP, of which $13 billion was public sector debt. Of the total $14.4 billion was medium- and long-term. The ratio of debt service to current account earnings was 40 percent. While the country is not e periencing a debt crisis as such, poorly planned borrowing in the late 1970s resulted in a bunching of amortization payments falling due between 1987 and 1991. The Colombian Government's strategy to deal with this "debt hump" has been to roll over commercial bank amortizations through a series of new syndicated loans designed to keep outstanding commercial indebtedness constant. In June 1989 the Finance Ministry successfully negotiated a third commercial bank loan syndication. This latest syndication, amounting to $1,645 million after extended negotiations, will provide for the bulk of Colombia's commercial bank financing needs through 1990.

5. Significant Barriers to U.S. Exports and Investment

Import Licensing: Colombia's prior import licensing requirement as well as certain high tariffs remain the country's most significant import restrictions, despite significant liberalization since 1985. The Government's primary justification in imposing a licensing requirement is the preservation of foreign exchange, although protection of local industries, generation of domestic employment, and the national interest also serve as rationale. Of the 5,132 items on the Colombian tariff schedule, only 54 (1 percent) remain on the list of prohibited imports, 3,094 (60 percent) are now on the prior licensing list, and 1,984 (39 percent) are freely importable, up from 0.5 percent in 1985. The bulk of freely importable items consists of capital goods, raw materials, intermediate and manufactured products, and consumer goods not produced domestically. In 1988, priority was given to the approval of imports of capital goods and raw materials to support Colombia's manufacturing and agricultural sectors. The proposed economic opening would have further liberalized the import licensing regime between 1989 and 1992.

Services Barriers

Motion Pictures: In June 1989, the Colombian Government agreed with the United States and adopted a resolution which resolved certain problems facing film, video, and television imports and royalty remittances. The resolution reforms the film royalty remittance system, heretofore the greatest barrier to exports in the motion picture industry. The new system sets an annual budget for film remittances and provides for automatic approval of film remittances up to $40,000, videos up to $5,000 and television programs up to $4,000 per 60 minutes of transmission.

Banking: Since 1976, Colombia with only a few exceptions has prohibited new foreign banking branches as well as acquisitions of local interests in financial institutions. Correspondingly, Colombia has confined existing non-Andean foreign banking branches to a 49 percent equity position. A bill to reduce these barriers significantly is making considerable headway in the Colombian Congress, and chances for passage look good.

Franchising: Colombian laws impede franchising by requiring disclosure of trade secrets and other confidential information and requiring that the franchising agreement be approved by the exchange authority in order to secure remittances. Levels of royalty remittances depend on the level of know-how transferred in the contract to the franchisee.

Maritime Transportation: Colombia requires that a minimum of 50 percent of import or export cargo be transported on Colombian flag ships. Colombian laws also deny market access to foreign marine insurers and restrict market access to foreign re-insurers.

Standards, Testing, Labeling and Certification: Specific labels are required for the approval of import licenses for food and pharmaceutical products only. In addition, for many imported goods, prior registration with the appropriate government agency is required. For example, imports of controlled drugs and chemicals must be approved by the narcotics division of the Ministry of Health. Other registration requirements exist for the importation of input materials for assembly industries.

Investment Barriers: Colombia, a leader of the movement within the Andean Pact to liberalize foreign investment rules, was the first member to implement liberalized regulations. In recent years Colombia has raised levels of capital remittances, liberalized local control requirements, created incentives for foreign investment, and streamlined bureaucratic requirements. Despite these reforms, barriers to foreign investment remain. All foreign investments require Government authorization, with approval based upon participation of national investors, effect on balance of payments, employment, technology transfers, and local content.

Government Procurement Practices: In 1987, Colombia enacted Law 222, requiring government-to-government contracting for some major public works projects. Because the U.S. Government cannot participate in commercial contracts with foreign countries, U.S. businesses have been prevented from participating as primary contractors. Other barriers imposed by Law 222 include: requiring that a foreign contractor associate or subcontract with a Colombian firm for at least 40 percent of the value of the contract; increasing the value of the foreign proposal by 20 percent when evaluating it and comparing it with other proposals; and requiring foreign bidders to list all costs and expenses while local bidders are exempt from this requirement.

U.S. bidders on certain infrastructural projects and equipment sales have been unable to compete with other foreign bidders due to maximum financing rates set below Export-Import Bank rates by the Ministry of Finance. In recent cases where U.S. firms have presented a package of mixed credits (Eximbank/suppliers) with overall rates that meet government requirements, the packages were still deemed unacceptable by governmental entities.

Customs Procedures: Burdensome administrative procedures and bureaucratic inefficiencies in the customs area are maddening to both Colombian businesses in need of imports and to multinational firms seeking to coordinate their production scheduling. Documentary requirements are extensive and in practice can take months to fulfill and process.

Import Duties: Import duties are high, ranging from 5 to 30 percent for capital goods, related raw materials and supplies, 30 to 50 percent on intermediates, and from 30 to 250 percent on consumer and luxury items. In addition, Colombia imposes an 18 percent surcharge on CIF (cost, insurance, freight) value, plus a value-added tax of 10, 20, or 35 percent charged to the CIF duty-surcharge-paid value of most imports. While some progress has been made in tariff reduction, the combination of duty and surcharges keeps the cost of imported goods high.

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6. Export Subsidies

Colombia maintains several export subsidies to the benefit of Colombian exporters of manufactured and processed agricultural products. Export incentives include: tax rebates for exporters of certain goods (being gradually phased out); export financing at preferential rates (although the government is adjusting these export credit lines to bring them closer to commercial rates); and an exemption from import duties on capital equipment for export-oriented industries. The number of products to which tax rebates for exporters apply has been sharply reduced in the past few years, and in general they are no longer available on exports to the United States.

7. Intellectual Property Rights

Colombia is a member of the World Intellectual Property Organization and is a party to the Berne Copyright Convention, but is not a member of the Paris Convention for the Protection of Industrial Property.

Colombia is judged to offer inadequate protection for intellectual property rights, as evidenced by its inclusion in 1989 on the U.S. Trade Representative's "Watch List" mandated by the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act.

Colombian intellectual property rights laws and policies are based on Andean Pact Decision 85, which provides inadequate protection to industrial property. To its credit, Colombia has been a leader in pushing for greater flexibility in Decision 85, in an attempt to bring it in line with international standards.

In the GATT Uruguay Round, Colombia has opposed the United States and other developed countries' efforts to expand the negotiation mandate to include elaboration of substantive standards on intellectual property. On the positive side, in 1989 the Government passed legislation extending explicit copyright protection to computer software and has also taken steps towards more effective enforcement of sanctions against video cassette pirates. In April 1989 Colombia agreed with the United States to provide for automatic approval of film royalty remittances up to $40,000.

Patents: Colombia denies product patents for pharmaceutical products, agricultural and food products, for certain biological procedures, and for any invention that affects the country's development. The patent term is only five years, with a five-year renewal available on proof that the patent has been worked in Colombia within three years of its issuance. Although compulsory licenses have rarely been granted, Colombian law in certain instances allows a third party to obtain a compulsory license to work the patent. Compulsory licenses can be granted at any time for patents affecting public health or national development. Colombia does not consider restrictions on imports of basic inputs justification for failure to meet the working requirements, nor is importing the patented product considered adequate working of the patent. Restrictions on licenses include royalty restrictions and limits on the patent holder's exclusive rights regarding importation of the patented product.

Trademarks: Colombia's trademark protection requires registration and use of a trademark in Colombia. Trademark registration is valid for only five years, with renewal for subsequent five-year periods contingent upon proof of use in an Andean Pact nation. Colombia does not consider import restrictions justification for failure to meet the use requirement. Colombian law restricts the rights of the trademark owner to prohibit imports of goods bearing the same trademark.

Copyrights: Lack of adequate enforcement of Colombia's modern copyright law remains a problem, despite increased government efforts. In particular, video piracy is widespread, although some progress has been made in stricter enforcement of piracy regulations.

New Technologies: Computer software enjoys explicit copyright protection under a law enacted in 1989. Satellite signal and cable television piracy, on the other hand, continue to be widespread.

8. Worker Rights *

a. The Right of Association

The right of workers to organize labor unions and strike is recognized specifically in the Constitution, except in the case of public service workers, for whom arbitration is compulsory. A 1976 law affirms the autonomy of labor unions to administer their own activities, and allows the almost automatic granting of official status to labor organizations with the requisite number of members.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively enjoys constitutional protection, although in practice private sector workers have limited bargaining power because of high unemployment. Use of strikebreakers is prohibited by law, and generous severance benefits tend to discourage management from firing union militants. However, this provision, like other provisions of Colombian labor law, are effectively ignored by small and medium-size enterprises.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited, and the prohibition is respected in practice.

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d. Minimum Age of Employment of Children

The law prohibits the employment of children in most jobs before the age of 14, particularly where such employment might interfere with schooling. This provision is respected in larger enterprises and major cities, although an estimated 2.5 million children under 15 work in the extensive informal sector which is effectively outside government control.

e. Acceptable Conditions of Work

The Government annually sets a national minimum wage (about $100 per month) which serves as an important bench mark for wage bargaining. While the 8-hour day is standard in larger companies, the workweek generally exceeds 40 hours. Workers' occupational safety and health are extensively regulated, including the use of protective equipment and clothing and compensation for injuries. However, exemptions for small companies, the frequent use of workers as subcontractors rather than employees, and general enforcement difficulties leave large numbers of workers outside protection of the law. Despite government enforcement efforts, maintenance of safety conditions and observance of minimum salary levels are among the labor regulations most frequently violated in Colombia.

f. Rights in Sectors with U.S. Investments

All companies with local or foreign investment must abide by Colombian legislation protecting worker rights. The main U.S. investment sectors in Colombia are the petroleum, the chemical and related products, and the manufacturing industries. Although worker rights conditions in those sectors do not differ in theory from those in other sectors of the economy, in practice they compare favorably to certain other sectors because of the large size and degree of organization of the enterprises involved. All companies in which U.S. capital is invested are noted for maintaining labor conditions that are above the national standard. Outstanding examples in these sectors are the imposition of shorter than average working hours, payment of the highest wages and salaries in Colombia, and compliance with occupational health and safety standards well above the national average. No company in which U.S. capital is invested has been accused of violating any of the basic premises of Colombian labor law.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		399
Total Manufacturing		710
Food & Kindred Products	176	
Chemicals & Allied Products	186	
Metals, Primary & Fabricated	4	
Machinery, except Electrical	4	
Electric & Electronic Equipment	6	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1109

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Colombia country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions 1966 colones (¢) unless otherwise stated)

	1987	1988	1989 (proj)
Income, Production, and Employment			
Real GDP	10,885.3	11,204.4	11,658.0
Real GDP growth (pct)	5.4	2.9 1/	4.0
Agriculture	2,049.5	2,161.3	2,248.0
Industry	2,425.0	2,475.9	2,574.0
Electricity/water	331.8	339.8	357.0
Construction	451.7	461.2	526.5
Commerce	1,941.6	1,963.0	2,042.0
Transportation/comm	825.9	873.8	900.0
Financial (est)	564.3	678.3	705.0
General govt	1,003.0	1,028.1	1,069.0
Others	1,160.3	1,205.1	1,233.8
Real disposable	3,725.8	3,749.8	3,750.0
Labor force (thous)	978.0	1,013.0	1,038.0
Open unemployment (pct)	5.6	5.6	5.5
Money and Prices			
Money (M1) (mils ¢) 2/	40,225.0	54,936.0	56,584.0
Comm'l interest rates (pct) 2/	28.8	31.5	31.5
Gross nat'l svgs rate (pct GDP)	19.3	16.8	18.0
Private	14.7	12.0	13.0
Public	4.6	4.8	5.0
Gross domestic invesmt (pct GDP)	29.6	24.0	25.0
Fixed capital formation	19.4	19.3	19.0
Private	16.0	16.0	16.0
Public	3.4	3.3	3.0
Changes in inventories	10.2	4.8	6.0
CPI (1976 = 100)	857.4	1,036.0	1,160.3
(yrly avg Dec-Dec/pct chg)	16.4	25.3	12.0
Exchange rates (yrly avg)			
Official	62.78	73.0	81.76
Parallel	64.66	75.19	84.21
Balance of Payments and Trade (mils $)			
Export of Goods FOB	1,106.7	1,227.0	1,400.0
Export to U.S. CIF 3/	751.3	864.7	n/a
Import of Goods CIF	1,388.7	1,415.7	1,500.0
Import from U.S. FOB 3/	571.6	683.7	n/a
Aid from U.S.	181.3	101.8	113.5
Aid from other countries	n/a	n/a	n/a
Foreign public debt (including interest arrears)	4,056.0	4,133.0	n/a
Annual debt service paid	n/a	n/a	n/a
Gold reserves	23.7	9.3	n/a
Net internat'l reserves	526.4	-633.4	n/a
Balance of payments current account balance	-278.1	-138.9	n/a

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1/ Real GDP growth rate for 1988 reflects most recent Government of Costa Rica estimate. IMF data still shows an earlier, higher estimate (3.7 percent).
2/ year-end figures
3/ USDOC figures are used for Costa Rican/U.S. trade levels. These figures do not net out the flow of U.S. goods exported for processing in Costa Rica under drawback arrangements and then re-exported to the U.S. This calculation tends to overstate the U.S. share in total Costa Rican trade.

Sources: Central Bank of Costa Rica; Direccion General Estadistica y Censo; IMF; ECLAC; and USDOC.

1. General Policy Framework

While Costa Rica continues to earn roughly half of its export earnings from a few agricultural products (coffee, bananas and beef), a major effort has been under way in recent years to diversify exports. Agriculture accounts for almost 20 percent of GDP, and nearly half of its production is exported, generating about 70 percent of total export earnings. Industry developed largely as a consequence of Costa Rica's accession to the Central American Common Market (CACM) in 1963 and has become an important contributor to GDP. Although trade within the CACM has contracted seriously, the growth of non-traditional and drawback exports to countries outside the region has more than compensated for the loss in Central American trade. Food processing is the main industry, followed by petroleum distillation from imported crude, textiles, chemical products, and metals and metal working.

In 1989, GDP was projected to grow approximately 4 percent, with consumption growing at 2 percent and gross investment growing at 20.5 percent. Growth in agriculture was an estimated 2.9 percent. Continued problems for the beef and basic grains sectors have been balanced by an expected three percent growth in banana production (possibly raising Costa Rica to first place in world exports) and continued success in non-traditional agricultural products. Manufacturing linked to exports should experience continued strength, and construction activity expanded again in 1989 by 6.6 percent due to housing, water works, sewage and road projects.

Fiscal Policy: Since 1982, Costa Rica has followed a policy of fiscal restraint. The overall objectives are to contain the non-financial public sector deficit by limiting expenditures and increasing revenue, to improve the balance of payments, and to endeavor to service the foreign debt. During 1988, central government revenue fell slightly in real terms, from 15.7 percent of GDP in 1987 to 15.3 percent in 1988. This was due largely to the decrease in taxes on international trade (i.e., import duties and surcharges and export taxes) which fell from 5.1 percent of GDP in 1987 to 4.2 percent in

1988. This reduction underscores the Government's agreement to lower tariff barriers, as reflected in their commitments under the World Bank's structural adjustment program and their efforts to adhere to the GATT. The tax reforms passed at the end of 1987 had a positive impact on the collection of domestic taxes which increased from 9.3 percent of GDP in 1987 to 9.9 percent in 1988.

Central government expenditures were also reduced in 1988 compared to the previous year, falling from 17.7 percent of GDP in 1987 to 17.2 percent in 1988. Cuts were made in both current expenditures (falling from 15.3 percent of GDP in 1987 to 15.0 percent in 1988) and capital expenditures, which fell from 2.4 percent of GDP to 2.2 percent of GDP over the same period. The relatively large reduction in expenditures more than compensated for the revenue loss, producing an overall central government budget deficit of 1.9 percent of GDP, down slightly from the 2.0 percent of GDP deficit in 1987.

Monetary Policy: During 1988, the total liquidity of the national banking system (M2) grew by 37.1 percent in nominal terms, a marked increase over the 19.5 percent growth during 1987. Time deposits (certificates of deposit), the main component of M2, grew at even higher rates in 1988--45 percent, compared to 29.4 percent during 1987. This large increase in liquidity is frequently cited as an important contributor to inflation in 1988. By contrast, the overall banking system credit balance increased only 9.9 percent in 1988, while during the previous year it grew by 24.3 percent. Tighter credit helped contain imports and also slowed investment in 1988, as shown by the 1.9 percent growth in fixed capital formation. Net credit to the public sector decreased by 6.2 percent, after an increase of 33.8 percent the year before. Within the public sector, general government credit balances decreased by 16.2 percent during 1988, after a considerable increase of 160.6 percent in 1987. The balances of credit of the rest of the public sector, which is much larger than the central government, grew by only 1.0 percent during 1988, after a reduction of 8.7 percent during 1987.

Balances to the private sector grew by 13.8 percent, as compared to a growth of 26.0 percent the previous year. Analyzing credit by productive sectors, the credit balance maintained by industry grew by 29.1 percent, that of agriculture decreased by 0.3 percent, cattle and fishing decreased by 7.8 percent, housing increased by 37.1 percent, commerce decreased by 7.7 percent and services decreased by 12.9 percent. New credit to the private sector increased by 25.4 percent during 1988, as compared to a 30.5 growth during 1987. During 1987, the system of apportioning state commercial banks' credit and setting interest rates to different productive sectors by the Central Bank was abandoned.

By early 1988, it had become apparent that some sectors were underfinanced (agriculture) while others had managed to capture larger shares (commerce, services). At that time, a partial return to the older system was instituted, which explains the large fluctuations in credit balances and new credit between the two years. Official explanations for the drop in agricultural credit during 1988 include the effect of legislation enacted to deal with farmers' delinquent debts. While designed to restore creditworthiness to the sector, the legislation was delayed in its implementation, thereby causing a temporary suspension of new loans to agriculture. Credit to the industrial sector grew vigorously as a consequence of policies to promote exports to new markets.

2. Exchange Rate Policies

The Central Bank employs a system of periodic mini-devaluations designed to adjust the exchange rate in light of domestic and world inflation. The colon was devalued 17.5 percent in 1988, reaching 79.00-80.00 colones/$1.00 at year end. In 1989, the colon has been devalued only 4.2 percent through October 5, reaching 82.35-83.35 colones/$1.00. This slower rate of devaluation reflects the decline in Costa Rican inflation during 1989.

Costa Rica has a unified exchange rate. By law foreign exchange is freely available from the Central Bank for the purchase of imports and for the repatriation of profits and royalties. However, delays can occur between the time the foreign exchange is requested (and the colon counterpart is deposited) and actual disbursement by the Central Bank. This delay has led some importers to use the secondary foreign exchange market to obtain funds. This market is illegal but widely tolerated and operates at a relatively low premium over the official exchange rate. In general, exporters are required to remit foreign exchange earnings to the Central Bank for conversion to local currency. This practice and the desire of exporters to hold dollar balances has resulted in the under-invoicing of exports.

3. Structural Policies

Pricing Policies: Costa Rica fixes producer, wholesale and retail prices for a number of agricultural products including dairy products, eggs, meat, rice, corn, wheat, flour, vegetable oils, and beans.

Tax Incentives: Tax incentives are included in two recent laws governing investment in Costa Rica--the Export Processing Zones Law of 1981 and the Financial Stabilization Act of 1984. The Export Processing Law established publicly and privately operated free zone industrial parks throughout Costa Rica. The benefits obtainable under the provisions of the free zone legislation include:

- total exemption from import duties on raw materials, processed or semi-processed products, parts or components;

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- total exemption from all export taxes associated with the export or re-export of products. The same exemption is granted for the re-export of equipment and machinery used in the productive process;

- total exemption from sales and consumer taxes;

- total exemption from taxes levied on remittances abroad; and

- total exemption from all taxes on profits for a period of six years from the beginning of operations, and 50 percent exemption for the following four years.

The Financial Stabilization Act creates the export contract, which is an agreement between the Government and a private sector producer to expand production of non-traditional export products for sale outside the CACM in exchange for certain government benefits. The Act also consolidates the legislation governing drawback operations. The benefits include:

- total income tax deductions on profits from non-traditional exports to third (non-CACM) countries;

- reduced port charges;

- simplification of procedures;

- bank financing at preferential rates;

- tax reductions;

- accelerated depreciation;

- a 50 percent tax credit on the purchase of stocks of firms that produce entirely for export'

- duty-free import of inputs for production of non-traditional products to be exported to third countries; and

- duty-free temporary entry for inputs used in assembly operations, samples and other inputs.

A National Investment Council, comprised of representatives from the Ministry of Foreign Trade (MINEX), the Central Bank, the Ministry of Finance, the Chamber of Industries, the Chamber of Agriculture, and the Center for Export Promotion (CENPRO), approves export contracts and coordinates with other government agencies the benefits to be awarded under each contract.

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4. Debt Management Policy

Costa Rica's public sector foreign debt was estimated at $3.8 billion at the end of 1988, with some $1.5 billion owed to commercial banks, $1.3 billion to multilateral creditors, approximately $950 million to official creditors, and the remainder in bonds, certificates of deposit, and supplier credits. While these debt levels are relatively low compared to other Latin American countries, Costa Rica's small size produces per capita debt levels and debt service ratios which are among the most onerous in the world. Costa Rica last completed a major rescheduling with the commercial banks in 1985. Total commercial bank arrears the end of October 1988 stood at $606.4 million. Although Costa Rica continued to pay commercial banks $5 million per month towards its roughly $11 million monthly interest obligations for the first half of 1988, these payments stopped during the remainder of 1988, and interest payments have been made only sporadically during 1989.

Rescheduling Efforts: Attempts by Costa Rica to reschedule its commercial debt were initiated. Efforts by the U.S. Treasury to include Costa Rica as one of the countries to receive treatment under the Brady Plan gave new impetus to the negotiations during the second half of 1989. Costa Rica met with its official creditors at the Paris Club on May 26, 1989 and concluded an agreement on rescheduling its bilateral debt.

Relations with the International Financial Institutions: In May 1989, the IMF Executive Board approved a one-year standby program for Costa Rica. Costa Rican performance under the program has been good with June 30 and September 30 targets being met to the satisfaction of the IMF. In September 1989, the Costa Rican Legislative Assembly ratified the World Bank's second Structural Adjustment Loan (SAL II), representing $100 million in World Bank funds plus an equal amount of Japanese government co-financing. SAL II calls for financial sector reforms and reduced tariff barriers, which the Government has been implementing.

5. Significant Barriers to U.S. Exports and Investment

The bulk of U.S. economic assistance to Costa Rica is in the form of balance-of-payments support, financing the importation of essential goods from the United States. Nevertheless, the overall market for U.S. exports is constrained by the need to stabilize the balance of trade, and by limited access to external financing in light of Costa Rica's heavy indebtedness. More specific barriers include:

Tariffs and Taxes: As part of its accession to the GATT, it is expected that Costa Rica will move to a more transparent, unified and lower tariff and tax system. Currently, Cost Rica operates under the legacy of the highly protective tariff barriers set up under the Central American Common Market as a means to encourage import-substituting light industry. Since imports from other Central American Common Market countries are not subject to Costa Rica's overall external tariff structure, they enjoy a significant advantage over U.S. products. High tariff and tax barriers restrict the import of a number of U.S. agricultural products, especially fruits, wines, and high-value and processed products. Customs duties range from one to 100 percent ad valorem.

However, U.S. exports are affected more significantly by the heavy taxes and Central Bank surcharges levied on imports, including:

- a selective consumption tax from 10 to 75 percent is levied on certain imports, as specified by the Government. This tax is assessed on the sum of the CIF value of the import and the ad valorem duty actually paid; and

- a sales tax of 10 percent ad valorem is levied on all products and services not destined for official use. In the case of imports, the tax is assessed on the sum of the CIF value of the import, the ad valorem duty, the selective consumption tax and the customs value tax. Certain essential items are exempt.

In addition to the taxes noted above, there is a one percent tax which is assessed on the CIF value of all imports, except imports of medicines and related inputs, school supplies and related inputs, fuel originating in Central America and Panama, industrial inputs, and spare parts and capital goods for industrial and agricultural enterprises with activities having a positive net effect on the balance-of-payments.

The Government may also impose on imported products Central Bank surcharges, which do not require legislative approval and can be changed with relative ease, although the law giving surcharge authority to the Central Bank stipulates that they are to be levied only to conserve foreign exchange resources. Present surcharges are at rates of 2, 6, 7 and 12 percent. There are also minor border charges, including stamp and gasoline import taxes and consular fees.

As an exception to the tax structure described above, vehicles imported into Costa Rica are subject to import charges based on four types of levies: (a) an ad valorem tax based on CIF value of 25 percent for pickups and 100 percent on automobiles; (b) a Central Bank surcharge (on the customs value as established by Costa Rican customs) of 17 percent for vehicles with a customs value of under $6,000 and 152 percent for those over $6,000; (c) a consumer tax, which is a sliding scale from 0 to 75 percent based on dollar value and engine size, and (d) a sales tax (on the sum of customs value, plus the taxes listed in a-c above) of 10 percent. The net result is that large cars have been taxed out of the market.

Import Licenses: The following products must have a specific license to be imported--pharmaceuticals, firearms, ammunition and explosives, and industrial or beverage alcohol or products used in its manufacture. In addition, import permits are required for a number of agricultural products, including edible vegetable oils, beef, pork and poultry meats, milk products, corn, rice, soybeans, protein meals, beans, peas and lentils. Import permits are granted or refused by Consejo Nacional de Producion (CNP) in consultation with the relevant producer organizations, with the aim of protecting local production.

Services Barriers: Offshore banks may locate in Costa Rica, but operations are restricted to long-term (over 180 days) savings, bond issuance and international services. Such banks cannot offer checking accounts. Insurance of all types is provided exclusively by the National Insurance Agency, a state-owned monopoly, which sets all charges and agent fees.

Standards, Testing, Labeling and Certification: Effective June 30, 1989 a new standards requirement for product labeling in Spanish and descriptions of color and artificial flavorings for food products was authorized. Additionally, both the size of the labels and the size of the lettering will be prescribed. However, three extensions are permitted for company compliance:

-- a grace period of six months was given to Costa Rican industries whose products are already on the market;

-- a grace period of four months was given to products currently located in Government customs warehouses;

-- a grace period of up to two years was extended to products of foreign firms, i.e., normal Costa Rican imports from abroad.

Upon expiration of the respective grace periods, products whose labels do not conform to this new Law will be barred from Costa Rican commercial transactions. The Ministry of Health in Costa Rica requires that all imported or locally manufactured medications, pharmaceuticals and cosmetics be registered every five years with the Department of Drugs, Narcotics and Psychotropics Control. All manufacturers and importers must present a request for registration accompanied by a sample of the product. This sample will be evaluated for quality control purposes to include not only the contents of the product but also its presentation, labeling and other items. Medicines and cosmetics also need prior authorization/registration from the Ministry, but this requirement for medicines may be waived in an emergency.

Investment Barriers: U.S. corporations and persons may legally own equity in Costa Rican companies, including real estate, plant and equipment. However, several activities are reserved to the state, including public utilities, insurance, demand deposits, electricity production and distribution, hydrocarbons and radioactive minerals extraction, refining, importation and distribution, and the operation of ports and airports. Investment in newspapers and radio and television stations, customs brokerage firms, and a few other enterprises, is limited to nationals.

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Most of the difficulties faced by foreign investors stem from a cumbersome bureaucracy which slows approval of documents for all types of transactions, but especially those concerned with customs and the banking system, including the Central Bank. Even though no unusual restrictions are imposed on the repatriation of earnings, royalties or capital, delays in receiving dollars for these transactions or for imports can be quite lengthy, adding considerably to an investor's operating expenses.

Investment Disputes: The civil and commercial codes provide for arbitration of commercial disputes. However, the procedures as established in law are cumbersome and rarely used. In practice, cases are usually settled in Costa Rican court, the only jurisdiction which Costa Rican law recognizes.

Article 45 of the Costa Rican Constitution stipulates that no property can be expropriated without previous, prompt and fair payment. Costa Rican law does not discriminate between nationals and foreigners in this regard. However, when dealing with land disputes, conflicts have taken a long time to resolve. Constitutional guarantees notwithstanding, almost all investment disputes involving U.S. citizens center on expropriation of U.S.-owned land.

Because of the large number of unresolved expropriation cases in Costa Rica, the U.S. Government has undertaken specific collective action to facilitate a resolution to the claims. As a result of U.S. Government pressure, the Costa Rican Government set up in 1988 a Special Commission to review all pending expropriation cases in Costa Rica. At U.S. Government insistence, the Government of Costa Rica also agreed to sign a March 1988 side letter to Costa Rica's 1989 Economic Support Fund (ESF) Agreement, which required the Costa Rican Government to file a quarterly report, demonstrating its efforts to resolve the pending expropriation cases. The side letter committed Cost Rica to resolve or make progress in the disputes by December 31, 1989. While the quarterly reports submitted by Costa Rica indicate some progress, resolution of the claims continue to experience bureaucratic delays. As a result of a relative lack of progress, the U.S. Embassy decided to withhold the disbursement of the final tranche ($20 million) of the FY 1989 ESF.

Government Procurement Practices: Government procurement may be through private tenders, through direct purchase from national and/or foreign suppliers, and through public tenders. While bids are awarded on a competitive basis, some tenders have contained unreasonable requirements prejudicial against otherwise qualified bidders, including U.S. companies (i.e., that a company have previous Latin American experience in order to qualify). The Government has shown willingness to review bids when arbitrary requirements were brought to its attention. Dissemination of information on upcoming tender offers is not always widespread. Some Government agencies inform member countries of the Inter-American Development Bank on upcoming international tenders valued at more than $200,000.

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In practice the Costa Rican Institute of Electricity routinely does so, but the Ministry of Public Works and Transportation merely complies with the minimum requirement by publishing such information only in the Official Gazette.

Costa Rican law specifies that participants in public tender competitions have recourse to appeal, generally within 30 days after the Government has proclaimed the recipient of a contract. The appeal is then adjudicated by the comptroller general, normally within a three-month period. The Minister of Public Works and Transport has said that for his Ministry's projects there is an unlimited number of appeals which may be made. Theoretically, this appeal process--if misused--is itself a form of trade barrier.

Customs Procedures: The major administrative barrier is the occurrence of processing delays in the customs office. Documents required for import are the certificate of origin in Spanish, invoice in Spanish, bill of lading, and import license where required. Occasionally printed product brochures and other promotional information may be taxed.

Intra-regional Trading Practices: Although not a government policy, the inability of other Central American countries to pay for all the products exported to them by Costa Rica has established an unofficial barter trade among them. Under this system, companies in other Central American countries compensate the Costa Rican exporter by arranging for sales of that country's products to a buyer in Costa Rica. The entity in Costa Rica which receives the products, simply pays colones to the exporter in Costa Rica which holds the debt. This circumvents the problems on both sides in obtaining foreign exchange. Third-country exporters, like the United States, can be disadvantaged under this system, but they have also been know to participate in barter deals.

6. Export Subsidies Policies

The Central Bank, upon recommendation from the National Investment Council, awards tax credit certificates (CATs) and export increment certificates (CIEXs), two export incentives which were established under the 1972 Export Promotion Law. The certificates are awarded to exporters of non-traditional products (i.e., exports other than coffee, sugar, beef, and cocoa) on sales outside the CACM provided the product has a minimum of 35 percent value-added. These certificates are equal to 15 - 25 percent of the FOB value of the export, a percentage which can be increased to 30 percent at the discretion of the Council if loss of market is threatened. The certificate cannot be redeemed for 12 months, but can be sold (usually at a discount) or credited for tax payments. CATs and CIEXs have been determined to be countervailable subsidies in recent investigations by the U.S. Department of Commerce; consequently, the Government is considering alternative incentives more consistent with international trading rules.

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The Government also provides subsidies on a wide range of agricultural products, most of which are destined for the domestic market. However, beef cattle and beans are exported. Beef exports receive the benefit of subsidized credits to producers. Bean exports receive not only subsidized credit, but also receive support through the Government pricing system managed by the National Production Council (CNP). The CNP sets prices at both the producer and consumer level. By selling abroad at prices below those it pays to producers, CNP subsidizes bean exports.

The Export Processing Zone Law of 1981 and the Financial Stabilization Act of 1984 allows for complete exoneration of income taxes and other benefits which for 12 years provide an alternative to the CATs.

Export-oriented investments in Costa Rica are normally structured under one of three different regimes, which each carry a variety of export incentives:

(a) Export Contract Regime--benefits are granted for 12 years to companies exporting non-traditional products to non-CACM markets, and include: CATs; 100 percent income tax exemption on non-traditional export earnings to non-CACM markets; 100 percent import duty exemption on raw material and other inputs that are part of the non-traditional products exported to non-CACM markets; import duty exemption on machinery and equipment (other than vehicles); and a 50 percent tax deduction (with several restrictions) for the amount paid to purchase shares in companies which export 100 percent of their production.

(b) Export Processing (free) Zones--geographically determined preferential areas of investment, set up as industrial investment and duty-free zones, are designed to facilitate access to export incentives. Benefits granted for 10 years include: total exemption from all customs duties, related taxes and consular fees on imports of raw materials, manufactured or semi-manufactured products, components, packing materials, equipment, and similar items; total exemption from all duties and export taxes related to exports and re-exports of products and machinery; total exemption from taxes on capital and fixed assets; total exemption from sales and consumer taxes, and 100 percent exemption from all income taxes, during the first six years of operations decreasing to 50 percent during the next four years of operations; free possession of foreign currency obtained from exports to third markets; one hundred percent exemption from 15 percent withholding tax on dividends during the first six years of operation, decreasing to 50 percent during the next four years (provided income from dividends is also tax exempt in the country of the beneficiary).

(c) Temporary Admission (drawback or maquila) Regime--drawback (U.S. Tax Code sections 806/807) is defined as the importation of piece goods and components for assembly in Costa Rica and the subsequent mandatory re-exportation of the finished goods. The local value-added is limited to labor and overhead costs (utilities primarily) and some administrative costs. Normally the piece goods and machinery are brought in duty free and the only taxes that apply are payroll taxes. Benefits granted for five years include: machinery and equipment as well as piece goods and components may be imported free of duties; one hundred percent income tax exemption. Only payroll, dividend and foreign remittances taxes apply. A company engaged in drawback operations normally does business under the temporary admission regime.

7. Protection of U.S. Intellectual Property

Costa Rica is a signatory of the Berne and Universal Copyright Conventions and the Geneva Phonograms and Rome Conventions and is a member of the World Intellectual Property Organization. Recent court decisions continue to maintain international intellectual property standards in the trademark area.

Costa Rican law provides for up to 20 years patent protection (renewable), except in the case of medicines and agricultural inputs, where the duration is significantly reduced. Trademarks are protected by the trademark registry, which keeps a permanent file on foreign trademarks and allows foreign registration. Processing fees for trademarks are not excessive, and there are no problems in gaining or maintaining registration. However, counterfeited goods are widely sold in public markets as well as in reputable retail outlets. Piracy of videos, movies, tapes, records and computer software is relatively common, despite possibilities to enforce existing legislation in the local courts. Reputable local lawyers view the most significant factor affecting intellectual property infringement in the country as lack of action from the affected parties to seek remedies under the existing legislation. In one recent instance, a U.S. apparel manufacturer was successful in prosecuting a local textile company for trade-name infringement.

The most important intellectual property violations are unauthorized software duplication, satellite transmission and cable television broadcasting. At least five cable television companies operate in Costa Rica. Royalty payments to some U.S. copyright holders are being made regularly. In other cases, however, payments are not being made. In 1989, an agreement was reached between U.S. copyright holders and the owners of the largest cable television company operating in Costa Rica which provides for full payment. This agreement is expected to serve as a precedent for negotiations with the other cable television companies.

8. Worker Rights *

a. The Right of Association

The right of labor to associate, as defined by the ILO, has been ratified by Costa Rica. Unions are independent of government control and are free to maintain relations with recognized international bodies such as the International Confederation of Free Trade Unions.

b. The Right to Organize and Bargain Collectively

Procedures for collective bargaining and arbitration of labor disputes are prescribed in law and followed in practice. The country's Labor Code states that when one-third of the workers in an operation are union members, the employer must conclude a collective agreement, if requested. The Code also permits employees to set up permanent grievance committees to handle both individual and collective disputes. A new draft Labor Code, initiated by the Government, is currently being studied by unions and other interested groups.

A fast-growing alternative to both Communist and democratic unions is Solidarismo, which combines a theory of labor/management harmony with a program of practical benefits like credit unions, in exchange for which members denounce their right to strike or to bargain collectively. The movement now represents about 15 percent of the work force, the same as trade unions.

When labor disputes arise within the San Jose metropolitan area, the presiding judge of the Labor Tribunal attempts to find a settlement that is satisfactory to both labor and management. Labor inspectors handle disputes that occur outside the capital. If conciliation fails, the case is referred to a labor court which must provide legal sanction for a planned strike or lockout. Unions have complained that this process is complicated, time-consuming, and often fruitless. Public sector strikes are illegal. Strikes and labor unrest were at low levels in 1988.

c. Prohibition of Forced Labor

The Constitution prohibits, and there are no known instances of, forced or compulsory labor.

d. Minimum Working Age for Children

The minimum working age is 12, with special regulations in force for workers under 15.

e. Acceptable Conditions of Work

The Constitution specifies compensation for discharges without due cause, the right to a minimum wage, and special protection for women and minors. While violations sometimes occur, these regulations are rigorously enforced. A National Wage Board of three members each (government, management, and labor) sets minimum wages and salaries for all sectors. The minimum wage ranges from $91 to $300 dollars per month, depending on occupation.

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The Constitution sets normal work hours at 8 for daytime and 6 for night work, with weekly totals of 48 and 36 hours respectively. Ten-hour days are permitted for work not considered unhealthful or dangerous, but weekly totals may not exceed 48 hours. A 1967 law governs health and safety at the workplace. Industrial, agricultural, and commercial firms with ten or more workers are required to have a joint labor-management safety committee. The law allows the Government to inspect workplaces and to fine employers for violations. However, a shortage of labor inspectors, especially outside of San Jose, limits the Government's ability to ensure that minimum conditions of safety and sanitation are maintained.

f. Rights in Sectors with U.S. Investment

U.S. investment is found in the food and related products, chemicals and related products, electric and electronic equipment, transportation, other manufacturing and wholesale trade. The five workers rights are ensured uniformly within these sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		1
Total Manufacturing		128
Food & Kindred Products	38	
Chemicals & Allied Products	44	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	17	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		-2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		127

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Costa Rica country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions DR pesos unless otherwise noted)

Income, Production and Employment	1987	1988	1989 (proj)
Real GDP (const 1989 prices)	44,150	44,370	44,600
Real GDP growth rate (pct)	8.1	0.5	0.5
GDP by sector (pct)			
Agriculture/livestock	15.7	15.3	15.2
Mining	4.3	3.9	4.1
Manufacturing	17.6	16.8	16.3
Construction	8.6	9.3	9.9
Electricity	2.0	1.9	1.7
Commerce	14.9	14.4	14.2
Transport	6.4	6.1	6.0
Communications	1.5	1.7	1.9
Financial services	4.3	5.0	5.3
Housing	6.3	6.4	6.2
Public administration	9.1	9.7	9.6
Other	9.3	9.5	9.6
Real per cap inc (1989 pesos)	6,454	6,341	6,261
Labor force (millions)	2.7	2.8	2.9
Unemployment rate (pct)	26.3	26.6	29.6
Money and Prices			
Money supply (M1)	2,575	3,913	4,350
Com'l interest rates (prime)	24.0	32.0	36.0
Gross national savings rate (pct)	18.5	16.6	17.0
Gross dom invest't rate (pct)	5.4	21.8	22.2
CPI (pct chg)	25.0	57.6	35.0
Wholesale price index	n/a	n/a	n/a
Exchange rate (peso/$1.00)			
Official (avg)	3.52	5.88	6.35
Parallel (avg)	3.84	6.10	7.00
Balance of Payments and Trade (mils $)			
Total exports FOB	711	899	1,028
Exports to U.S.	580	591	680
Total imports CIF	1,592	1,608	1,929
Imports from U.S.	640	665	790
Aid from U.S.	108	51	62
Aid from other countries	124	205	160
External public debt	3,898	4,060	4,150
Annual debt service (paid)	585	583	560
Gold and forex reserves	235	310	80
Balance of payments	-593	-304	-340

DOMINICAN REPUBLIC

1. General Policy Framework

The Dominican Republic strives for an open, free-market economy. Companies are privately owned except for 22 owned by the state (properties nationalized from the estate of former dictator Trujillo) and the public utilities. The Government welcomes foreign investment and trade. Trade is essential as it is estimated that around 40 percent of the content of all items manufactured in the Dominican Republic is imported.

Traditionally dependent on sugar exports for its hard currency, the Dominican Republic has had to diversify its export base following the deep cuts in the U.S. sugar quota. Principal foreign exchange earners today are industrial free zones, tourism, ferro-nickel, and gold. The Government has effective incentives to promote private tourism investment as well as free zone development. Equivalent incentives are generally lacking in agriculture, except for some non-traditional export crops.

The Government's income derives principally from customs receipts (46 percent in 1988), followed by income taxes and the value-added tax. Tax bracket creep and unwieldy import and export taxes have contributed to increased tax evasion, although fiscal revenues have increased substantially over the last three years as a result of improved collection methods. Despite the improved collections, over the same period an ambitious public works program has contributed to a slight central government deficit. Subsidies to bloated, inefficient parastatals (such as the electric and sugar companies) have led to a substantial consolidated public sector deficit, which has been financed with credit from domestic commercial banks, the Central Bank, external assistance and a large accumulation of external debt arrears. Controlled negative real interest rates have been a disincentive to private savings.

The Central Bank has attempted to control the money supply using mechanisms such as increased bank reserve requirements, freezes on commercial credits and the sale of bonds. The Bank has limited influence, however, on public sector spending policies, as it is required to assist in financing the State Sugar Company, the National Agriculture Bank and, through the discount window, a shakeout among the private finance companies. Because of the large deficits of parastatals and the recently removed preferential exchange rate for public sector and petroleum imports, monetary aggregates have increased substantially. Between August 1986, when the current government was inaugurated, and August 1989 (37 months), M1 has grown by 154 percent.

The Government public works program initiated in August 1986 increased employment but heated up the economy. Consolidated public sector deficits financed with the printing press and Central Bank credits increased the monetary aggregates. With an economy highly dependent on imports, demand for foreign exchange leaped, causing the Dominican peso to depreciate 55 percent between August 1986 and October 1989. In attempts to control depreciation of the peso, various forms of exchange controls have been tried. The current exchange controls have been in effect since August 1, 1988. This system worked well (minimal spread between the official and black market exchange rate) until mid-August 1989 when demand increasingly outpaced the Central Bank's ability to supply dollars. By late October 1989 the black market premium on the dollar, in a volatile market, reached 25 percent. The soaring exchange rate and increased demand in 1988 pushed inflation to 58 percent compared to 25 percent in 1987. Inflation in 1989 declined to around 35 percent as a result of reduced deficit spending and relative price stability since the large, exchange rate-induced price hikes in mid-1988. The Dominican Republic traditionally has had low inflation and is hard pressed to adjust to the current trend.

2. Exchange Rate Policy

Since August 1, 1988, the Dominican Republic has had a fixed exchange rate established by the Central Bank. The Central Bank reviews the exchange rate using methodologies that take into account external competitiveness, impact on internal costs and relative inflation rates. The current rate of exchange is fixed (buy - 6.28 pesos/$1.00 and sell - 6.35 pesos/$1.00). All foreign exchange coming into the country must be exchanged with commercial banks who turn it over to the Central Bank, which is the only legal seller of foreign exchange. All requests to buy foreign exchange (accompanied by the requisite pesos) must be channeled through commercial banks to the Central Bank. If the foreign exchange is available and the application forms are in order, the Central Bank allocates it. If the application is incorrect or lacks documentation, it is returned. The Central Bank is exploring ways to make this process more flexible.

Preferential exchange rates for public sector expenses (including payment of foreign debt), essential food imports and the purchase of petroleum and its derivative products were abolished by July 1, 1989. A 5.30 peso/$1.00 exchange rate is applied to compute peso prices for airline tickets. A set of reference exchange rates are used to compute ad valorem import taxes--starting at 3.36 pesos/$1.00 for "essential imports," 5 pesos for most other imports and 8 and 10 pesos for different automobiles according to price and engine displacement.

3. Structural Policies

There are 22 parastatal corporations that were properties of the Trujillo family, nationalized by the Government of the Dominican Republic in the early 1960s. A few have private sector competition (cement, sugar) and others are monopolies (glass, salt, electricity, airline). The prices of certain essential products and services (essential food products, petroleum products, cement, bus fares, etc.) are controlled by the Government. Other prices are established by the marketplace. Low controlled prices and subsidies on certain food items make local production unprofitable, which affects

U.S. exports of inputs such as feed grains, fertilizers, packaging materials, etc.

| The income tax is progressive with the lowest bracket starting at the equivalent of $1,960 a year with the minimum wage set at $1,340 a year. There is a corporate income tax and a value-added tax. There are export taxes on many products which act as disincentives to exports. Import duties are high and are followed by a long list of import taxes. Industries incorporated under the industrial incentive laws benefit from certain duty and tax exemptions. Industrial free zones operate completely free of import and export taxes and duties. Tourism investment receives tax and certain import incentives. Foreign investments of sufficient size may negotiate special exemptions from duties and taxes on a case-by-case basis.

4. Debt Management Policies

Current Dominican external public debt and accumulated arrears stand at $4.2 billion or 60 percent of estimated 1989 GDP. Twenty-six percent is owed to international financial institutions, 35 percent to Paris Club creditors, 15 percent to other bilateral creditors, 21 percent to commercial banks, and 3 percent is for supplier credits and other. The Government is paying its obligations to international financial institutions and some of its debt with the United States. In May 1989 it stopped paying interest on its commercial debt. The Dominican Government runs substantial arrears on its Paris Club and certain other bilateral debt, now totalling over $700 million. The Central Bank has developed a debt conversion program which has the preliminary approval of its commercial bank creditors. The program awaits governmental approval before submission for consideration by the Dominican Republic's 90-odd creditor banks. The Dominican debt service (paid) ratio as a percent of estimated merchandise exports for 1989 is approximately 55 percent. The Government needs to restructure its debt (with the Paris Club and a new multi-year rescheduling agreement with the foreign commercial banks) but, for political reasons, is not yet prepared to accept an IMF agreement, a requirement for Paris Club and commercial bank rescheduling.

5. Significant Barriers to U.S. Exports and Investment

Importers are required to have a general import license only. Probably the most significant barrier to U.S. exports at this time is the foreign exchange system. Since mid-August 1989 the Central Bank has not been able to supply the dollars demanded by importers. The next most significant impediment to U.S. exports is the arbitrary application of the complex and archaic customs regulations, tariffs and taxes by the customs service.

Standards, testing, labeling and certification are rarely barriers to trade. Other barriers to trade are:

- a law intended to protect Dominican agents and distributors from being terminated without "just cause" which provides for excessive indemnity after termination;

- a six percent value-added tax on all imports;

- a four percent ad valorem "redemption" tax on all imports;

- a 20 percent exchange commission on most imports (in effect, an import tax);

- a 20 percent ad valorem internal consumption tax on all imports;

- a fixed peso tax per liter, kilogram, or square meter of over 200 specific items and/or ad valorem taxes varying between 5 and 150 percent, with all other imports charged a 35 percent ad valorem tax;

- a 20 percent ad valorem tax on all imported industrial and agricultural machinery and equipment;

- a 20 percent ad valorem tax on all imports considered luxuries; and

- a 20 percent ad valorem tax on all imports which are exempt from paying income taxes as a result of protection under the industrial incentives law.

Barriers to investment include denial of national treatment by not allowing foreign equity in most public services, limiting foreign equity to 70 percent in the publicity, radio broadcasting, television, newspapers, magazines, publishing and mass communications and to 50 percent in insurance and banking. Foreign personnel may not be more than 30 percent of employees. Companies registered under the Foreign Investment Law are limited to remitting profits or dividends abroad to 25 percent of registered capital per year. Any foreign person or corporation must obtain permission from the Presidency to invest in real property. Exceptions include for the first purchase of not more than 2,000 square meters, of purchases by a resident for more than five years or married to a Dominican, purchases by foreign financial institutions legally located in the country and investments by companies with at least 51 percent Dominican ownership.

Foreign-owned insurance companies are denied national treatment because they are taxed on the presumption that net profits are at least 25 percent of premiums earned in the country. Customs procedures are extremely burdensome. A variety of documents are required with special consular approvals and verification from the Central Bank that the foreign exchange used to buy the import was legally obtained from the Central Bank. Delays can be long, as customs inspectors negotiate valuations for customs and tax purposes and then identify the various taxes which apply.

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6. Export Subsidies Policies

There are no export subsidies. In fact, most exports are taxed thus reducing their competitiveness in foreign markets.

7. Protection of U.S. Intellectual Property

The Dominican Republic is a party to the Paris Convention for the Protection of Industrial Property and the Universal Copyright Convention.

There are laws in effect protecting patents, copyrights and trademarks. Currently there are no laws which promote domestic industry at the expense of foreign intellectual property rights. The Dominican Republic supports intellectual property rights in international fora, although it is an area of very limited Dominican interest. There have been a limited number of complaints of trademark infringement (in the textile sector) and satellite signal piracy by cable television companies. There is concern about possible pharmaceutical patent infringement. The damage to U.S. trade is negligible as a result of counterfeiting and pirating or from exports of such goods to third countries.

8. Worker Rights *

a. The Right of Association

The Constitution provides for the right to organize labor unions, and also the right of labor to strike and for the private sector to lockout. However, unions operate under a Labor Code (1951) that gives them few rights vis-a-vis management and gives no effective protection for organizers or union officials. Organized labor represents about 12 percent of the work force. There have been no credible reports of the Government interfering or restricting association with international labor organizations or activities.

b. The Right to Organize and Bargain Collectively

The Labor Code clearly stipulates that workers cannot be dismissed because of trade union membership or activities. Still, there are complaints that these protections are ignored and that labor leaders are being discriminated against. The Free Trade Zone labor force, over 70 percent female, is almost totally non-union.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law. Human rights groups and others charge that in 1989 Haitian laborers in the sugar cane fields were subject to abusive living and working conditions and in some cases were forced to work against their will. The issue has been reviewed for a number of years by ILO supervisory bodies.

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d. Minimum Age for Employment of Children

The Dominican Labor Code prohibits employment of youths under 14, and restricts night work of youths 14 to 18. The Labor Code also provides that employees under 18 work no more than 8 hours a day, and specifies that those 18 years and younger may not be employed in dangerous or unhealthy jobs. In practice, many of these restrictions are ignored. Young people, including minors less than 14, engage in a wide variety of work which technically violates the regulations.

e. Acceptable Conditions of Work

The Labor Code entitles all workers to 24 hours of rest after six days of work; in practice a typical work week is Monday through Friday plus half a day on Saturday. Safety and health conditions at the workplace do not always meet legal standards. Conditions among agricultural workers are in general much worse. The public sector minimum wage was raised from $64 to $80 a month in August 1989, and the private sector minimum was raised from $80 to $111 on October 25, 1989.

f. Rights in Sectors with U.S. Investment

Conditions in sectors with U.S. investment do not vary significantly from those in other industrial sectors. Companies with U.S. investment generally have a reputation for paying better wages and providing better work conditions.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		66
Food & Kindred Products	(*)	
Chemicals & Allied Products	20	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

DOMINICAN REPUBLIC

* Section 8 is an abridged version of Section 6 of the Dominican Republic country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

ECUADOR

Key Economic Indicators

(Billions of 1975 sucres (Su) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, and Employment			
Real GDP (bils 1975 Su)	159.8	180.3	n/a
Real GDP growth rate (pct)	-5.2	8.0	1.0
By sector (pct GDP)			
Agric/hunting/forestry/fishing	17.8	17.8	n/a
Mining	0.8	0.8	n/a
Petroleum (inc refining)	6.4	11.3	n/a
Manufacturing	18.8	16.7	n/a
Construction	4.4	3.7	n/a
Electricity/gas/water	1.7	1.6	n/a
Transport/storage/communications	8.3	8.1	n/a
Commerce/finance	28.0	27.1	n/a
Governmental services	9.6	9.2	n/a
Other services	4.1	3.8	n/a
Real per capita GDP ($)	944	999	n/a
Size of labor force (millions)	3.05	3.15	3.40
Unemployment rate	12.0	14.3	n/a
Money and Prices			
Money supply (M1) (bils Su)	246.2	372.6	n/a
Commercial interest rate (est)	40	45	50
Savings rate (pct of GDP)	9.1	15.0	n/a
Consumer price index (5/78-4/79 = 100) (87-88 yr-end, 89 as of Aug 31)	713.8	1325.6	1882.9
Wholesale price index (yr-end)			
Industrial	764.4	n/a	n/a
Agriculture	1108.8	n/a	n/a
Exchange rate (approx avg Su/$)			
Official	170	302	525
Parallel	218	480	565
Balance of Payments and Trade			
Total exports FOB (bils $)	2.021	2.192	2.300
Exports to U.S. (bils $)	1.266	1.231	n/a
Total imports CIF (bils $)	2.251	1.713	1.800
Imports from U.S. (bils $)	.615	.680	n/a
Aid from U.S. (mils $)	56.9	26.0	24.5
Aid from other countries	n/a	n/a	n/a
External public debt (yr-end) (bils $)	10330	10536	11829
Annual debt service (paid) (mils $)	523	984	n/a
Gold & forex reserves (mils $)	-151	-176	0
Balance of payments (mils $)			
Current account balance	-1131	-597	n/a
Trade balance	-33	589	427
Exports	2021	2203	1568
Imports	-2054	-1614	-1141

ECUADOR

1. General Policy Framework

The center-left government of President Rodrigo Borja took office in August 1988. The previous center-right government of Leon Febres Cordero had implemented policies relaxing constraints on trade and foreign investment. The new Government has maintained some of these policies while imposing certain import restrictions to reduce the demand for U.S. dollars. Falling oil prices saddled the previous Government with a severe economic downturn in 1986, causing the Government to stop repayments to commercial banks early in 1987. Shortly thereafter, the economy was jolted again by the rupture of the country's sole oil pipeline during a major earthquake. The fiscal deficit then rose sharply in 1988 as a result of election year spending and inflation accelerated. The new Government imposed monetary and fiscal policy austerity measures which slowed inflation. These measures have been relaxed somewhat but continue to be felt by both domestic firms and by foreign exporters and investors.

Central government planning for 1989 called for a balanced budget, and through the end of July 1989 the central government budget was reportedly in surplus (not including debt service, which continues to accumulate arrearages).

Monetary policy is controlled through Central Bank emissions, reserve requirements, and interest rate ceilings. Interest rate ceilings are particularly important to small- and medium-sized businesses, as the ceilings do not allow lending institutions to account for small business risk, and are pegged at levels lower than the inflation index for the poorer classes over the past 12 months.

Tax policies have historically been a disincentive for domestic private investment and savings as the top tax brackets, with marginal rates well above 50 percent, have encouraged tax evasion and capital flight. A major tax law revision is underway, including reduction of marginal rates, with the lead party in the government coalition aiming to have the new law in place in early 1990.

2. Exchange Rate Policies

Ecuador has two functioning exchange markets along with a third official exchange rate. Private and public sector transactions are made through the intervention market. The intervention rate is currently devalued at the rate of 3 sucres per dollar per week. The Monetary Board also periodically adjusts the intervention rate separately from the weekly corrections, the latest such adjustment having taken effect October 23, 1989 when the rate at which the Central Bank buys dollars from exporters was moved 3 percent and the sell rate moved 2 percent. A free market continues to exist for residual transactions. The official exchange rate stands at 390 sucres/$1.00 and is only used for the accounting purposes of the Central Bank. The October exchange rate adjustment served to close further the gap between the buy and sell rates, in accordance with Ecuadorian Government commitments to the IMF. The free market exchange rate has tended to stay within about five percent of the intervention rate.

3. Structural Policies

The official policy of the Ecuadorian Government is to encourage foreign investment. Foreign investment is especially encouraged in the agro-industrial and export-oriented sectors. For example, all firms are permitted annually to repatriate profits of up to 30 percent of the value of registered investment, but those companies that export significant portions of their production are allowed to repatriate a higher percentage of profits, up to unlimited repatriation for firms exporting 80 percent or more of production. Foreign investment in the mining and petroleum sectors is also officially encouraged. A new mining law is under development, and many in government and the private sector realize that additional guarantees for investment and personal security are needed to make the Ecuadorian mining sector a more inviting investment opportunity. Investors in the petroleum sector, however, are finding a variety of unexpected difficulties in dealing with authorities.

The Ecuadorian tax structure is being reformed. Nominal tax rates stand to be reduced greatly under the new regime, but enforcement also stands to become more effective. The new tax law may be instituted as early as January 1990. The Government maintains price controls on such items as some food staples, transportation costs and gasoline. Price controls can have significant impact on profit potential for exporters of agricultural goods to Ecuador.

4. Debt Management Policies

Ecuador's medium- and long-term debt stood at $10.536 billion at the end of 1988, and grew to approximately $11.829 billion, including arrearages, by the end of 1989, an increase of 12.3 percent. Ecuador continues to suffer from poor standing with international banks, and little new lending was available to the country in 1989 except in the form of government-to-government trade credits, such as those promised to Ecuador's President Borja during visits this fall with Prime Minister Gonzalez of Spain, and Presidents Mitterrand of France and Sarney of Brazil.

Ecuador recently has resumed partial debt service payments and was expected to pay $160 million in 1989 to its commercial bank creditors but fell short of that target. Ecuador's total debt outstanding equals approximately 110 percent of gross domestic product. Prior to rescheduling, total debt service for 1989 was projected to be 67.2 percent of exports of goods and services. Paris Club creditors reached agreement October 24, 1989 with the Government of Ecuador on a rescheduling of virtually all official debt payments due through the end of

1990, representing $386.4 million. The terms include six years grace and four years for repayment of capital. (A similar agreement had been reached January 20, 1988.)

The economic situation in Ecuador continues to deteriorate in the wake of continued low oil prices, exacerbated by the ongoing debt crisis first originating in 1982. Responsible monetary and fiscal policies have brought inflation down. Twelve-month inflation levels through spring 1989 were approximately 100 percent, but 1989 calender year inflation reached only 50 to 55 percent.

Nevertheless, additional structural economic reforms will be necessary to overcome the external shocks. Estimated population growth continues at a 2.8 to 3.0 percent rate, while the non-petroleum sector grew slowly (1.5 percent) in 1988 and stagnated in 1989.

5. Significant Barriers to U.S. Exports and Investment

Ecuador has implemented a number of trade controls, the majority of which are designed to limit demand for U.S. dollars, to reduce inflation, and to prevent over- and under-invoicing of imports and exports.

All imports permitted entry into Ecuador require an import license. Licenses are issued by the Central Bank, are valid for six months and are renewable for an additional six months if the request is made prior to the expiration date of the original license. According to regulations, it should take three working days to obtain a license from the Central Bank, but in reality this process takes at least 2 to 3 weeks, if all documentation is in order. Items permitted to be imported are specified by the Monetary Board and classified under Lists I and II of the Customs Cooperation Council nomenclature. Advance deposits are required for most imports and range from 20 to 60 percent for public sector imports, and 45 to 120 percent for private sector imports. Deposits in sucres are held for 120 days without interest to the importer and are calculated on the CIF value of the goods.

In keeping with government policy to encourage development of the agricultural industry and provide sufficient foodstuffs to the populace, food products and agro-industrial products acquired through the U.S. Commodity Credit Corporation are among those goods not subject to the advance deposits. Also, if the import is financed by a foreign credit of at least 120 days duration, no prior deposit is required.

Services barriers exist in several industries. Foreign direct investment in the sectors of insurance, reinsurance, commercial banking and finance companies is limited to 49 percent of the local company's capital. This limit includes increases in capital effected through capitalization of increased asset value or of non-distributed profits. The 49 percent limit has meant no expansion of the number of foreign banks in the country for many years. (The lack of local investors further hampers the ability of foreign investors to enter the sectors named above.) Foreign investment in the communication media is prohibited. Investment in public sector activities, such as sewerage, lighting, water and telephones, is generally not allowed. The acquisition of existing national firms is not encouraged. Ecuador has only a small, relatively unimportant stock exchange.

Ecuadorian customs procedures can be difficult. For example, some twelve authorized customs fees are charged for customs services performed by the customs authorities. Special documents may be required. These include: a Certificate of Purity of Sanitation (covering shipments of all types of beverages, fertilizers, flour, lard, livestock, edible oils, plants and seeds, and canned foods); a Certificate of Analysis (pharmaceuticals, food and similar products, except tallow); and, a Certificate of Inspection (spun rayon textiles or spun rayon and pure rayon mixed textiles). Currently, import duties range up to 90 percent of the CIF value of imports, with the exception of vehicles (which range from 70 to 290 percent, but are generally not allowed at this time in any case). Monetary stabilization fees of 5, 8, or 15 percent are levied on most imports, depending on the product. A sales tax of 10 percent is added to most imports, and under the new tax structure much higher taxes will likely be levied against such products as alcohol and tobacco.

6. Export Subsidies Policies

Ecuador is not a member of the GATT Subsidies Code. Short-term export credits are available as low-cost loans to exporters, against a guarantee of future shipment, from the Fund for the Promotion of Exports. Long-term loans to exporters are also available. Traditionally, small businesses have been shut out of the capital markets as interest rate ceilings on loans do not allow lenders to account for small-business risk. However, the Government is now planning to implement a government loan program for small businesses.

Some direct and indirect tax incentives are in place. For example, the parastatal shipping line, Transnave, operated by the Ecuadorian Navy, does not pay the 6 percent tax on the value of exported goods chargeable to other shipping lines, although this could be altered in new tax legislation.

7. Protection of U.S. Intellectual Property

Ecuador is a member of the World Intellectual Property Organization and is a party to the Universal Copyright Convention. However, Ecuador is not a party to either the Berne Copyright or the Paris Industrial Property Protection Conventions.

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Policies on technology transfer, trademarks, and patents are determined by the Inter-ministerial Committee on Technology Transfers, generally within the context of applicable provisions of the Andean Foreign Investment Code. Ecuador accords protection to foreign-registered property. All foreign licensing contracts must be approved by the Ministry of Industry, Commerce, Integration and Fishing.

Copyright infringement remains a problem. Audio and video recordings are pirated, with videocassette copies continuing to be available in rental outlets. Computer manufacturers continue to be seriously plagued by piracy of software, and look to methods of making the software as difficult to copy as possible as their single most important defense.

Under Decision 85 of the Andean Pact pharmaceutical products, among others, cannot be patented, although the manufacturing process of these products is protected.

8. Worker Rights *

a. The Right of Association

Freedom of association is guaranteed in Title II of the Ecuadorian Constitution to all citizens. Title II, Section V of the Constitution specifically guarantees the right to form labor unions without governmental involvement or need for governmental authorization to both workers and employers. Only some public servants and security/military personnel are not granted full right of association. Any enterprise employing more than 15 employees must allow its workers to form a union. In practice, the right to free association is respected.

b. The Right to Organize and Bargain Collectively

Under Ecuadorian law all private employers with more than 15 employees who belong to a union or employees association must bargain collectively with the union when the union requests. Some public sector employees are not allowed to form unions/associations, and are not granted the right to bargain collectively. In practice, the right to collective bargaining is respected, particularly in larger enterprises.

c. Prohibition of Forced or Compulsory Labor

Article XI of the Ecuadorian Constitution prohibits compulsory labor. There are no reports of forced labor.

d. Minimum Age for Employment of Children

Ecuadorian citizens under 14 are legally prohibited from working, except in situations similar to apprenticeships. Children 14 to 18 require parental permission to work. In practice, many children under 14 work in the "informal economy," mainly in family-owned businesses. Enforcement mechanisms exist but are inadequate.

e. Acceptable Conditions of Work

The Ecuadorian Labor Code provides for a 40-hour work week, 15 vacation days annually, minimum wage, social security and other benefits. The minimum wage is about $49.23 (at $1.00/sucres 650). Employers are responsible for maintaining safe and clean working conditions. Enforcement, by the Social Security Institute, is considered adequate.

f. Rights in Sectors With U.S. Investment

Major U.S. investment in Ecuador is concentrated in the petroleum, electrical and manufacturing sectors. There are no export processing zones (EPZs) in Ecuador, and Ecuadorian labor laws affect foreign and domestic investors in the same way. Foreign investors, particularly U.S. and Western European, are considered good employers, especially in the wages and benefits areas. However, the Ecuadorian Government recently suspended the constitutional rights of Texaco workers who struck briefly over separation pay allegedly owed them.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		189
Total Manufacturing		154
Food & Kindred Products	33	
Chemicals & Allied Products	16	
Metals, Primary & Fabricated	16	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	11	
Other Manufacturing	(D)	
Wholesale Trade		41
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		384

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Ecuador country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions of El Salvador colones (¢)
unless otherwise noted)

	1987	1988	1989
Income, Production and Employment			
GDP (mils curr ¢)	23,140.6	27,341.5	32,290.0
GDP (mils const 1962 ¢)	3,093.5	3,143.8	3,172.0
Real GDP growth (pct chg)	2.8	1.6	.9
GDP by sector (pct GDP)			
Agriculture	13.8	13.6	12.0
Manufacturing	17.5	17.6	17.9
Commerce	31.4	32.6	33.9
Public admin/utilities	9.5	8.7	11.1
GDP per capita (const 1962 ¢)	600.7	600.0	594.0
Labor force (mils)	1.38	1.40	1.42
Unemployment a/	n/a	n/a	n/a
Money and Prices			
Money (M1) (mils curr ¢)	2,812.3	3,033.1	3,305.2
Comm'l interest rates (pct)			
Loan	17-21	17-21	20-22
Deposit	6 - 15	6 - 15	10 - 18
Savings rate (pct GDP)	8.1	8.0	8.2
Investment rate (pct GDP)	12.4	12.6	12.1
Consumer price index (pct chg)	24.9	19.8	18.0
Wholesale price index (pct chg)	21.3	17.0	18.5
Exchange rate (¢/$)			
Official	5.0	5.0	5.0
Parallel	5.2	5.2	6.4
Balance of Payments and Trade (mils $)			
Total exports FOB	590.9	608.8	535.0
Exports to U.S.	288.6	296.9	280.0
Total imports CIF	994.1	1,006.9	1,090.0
Imports from U.S. FAS	362.6	461.1	470.0
Aid from U.S. c/	415.5	301.4	335.0
Aid from others (IFIs)	31.7	38.9	25.0
External public sector debt (bils $) (e)	1.8	1.81	1.82
Debt service	431.3	399.3	400.0
Net internat'l res (yr-end)	302.0	238.1	230.0
Current account balance (f)	137.1	52.4	-60.0

a/ No reliable official unemployment estimates exist. The last national survey in 1985 revealed an open unemployment rate of 16.9 percent. Methodological problems plagued this survey, making it highly suspect. The local labor market, although a victim of slow growth, has been cushioned in recent years by large-scale emigration. As much as 40 percent of the labor force may be underemployed.

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b/ projected
c/ direct economic assistance, calendar year grants and loans
d/ includes reinvestment
e/ includes banking system obligations
f/ includes transfers

1. General Policy Framework

The Salvadoran economy has proven remarkably resilient in weathering the war-induced drop of more than 20 percent in real GNP during the period 1978-82. In the past six years the economy has expanded, albeit at modest levels. On the policy side, years of mismanagement has contributed to serious fiscal and balance-of-payments problems. Brightening the economic horizon are the comprehensive free market-based economic reforms being implemented by the Government of Alfredo Cristiani. These structural adjustment policies are aimed at achieving sustained export-led growth through the promotion of private enterprise. The policies and actions adopted include:

- a major devaluation (28 percent) in the colon and creation of a two-tier exchange rate system that places 75 percent of total imports and 65 percent of export transactions at a daily fixed exchange rate that is two percent below the real market rate;

- removal of most price controls on basic consumer goods;

- upward readjustment in interest rates to positive (inflation adjusted) levels for loans and deposits of 120 days and over;

- a narrowing of import duties to a range of 5-50 percent;

- elimination of a major trade non-tariff barrier by removing the import requirement of a 20 percent deposit (total CIF value of import) for opening letters of credit and a 50 percent deposit upon receipt from the bank of commercial documents;

- increases in electricity tariff rates and bus fares;

- submission of a tight fiscal budget plan for 1990, subject to National Assembly approval, that entails major declines in real public sector spending levels;

- a major revision of the tax code, subject to National Assembly approval, that includes the simplification of a key revenue component (the stamp tax), to a flat five percent rate; and

- abolition of the monopoly buying and export authority of the national coffee and sugar institutes (INCAFE and INAZUCAR).

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Any discussion of the Salvadoran economy must underscore the dramatic economic damage caused by a decade-long civil war. The direct economic costs due to guerrilla sabotage stands at almost $2 billion since 1979. To this must be added the huge fiscal costs attributed to maintaining a large military and security force structure that reduces resources available for productive investment. The conflict has also sapped investor confidence and contributed to capital flight.

Foreign economic assistance has been indispensable to finance the chronic balance-of-payments deficit and a large proportion of the public sector capital investment budget. In 1989, donor (bilateral and multilateral) assistance is likely to exceed $370 million. By far the largest donor is the United States ($335 million), followed by the Inter-American Development Bank (IDB). U.S. assistance funds are focused on earthquake reconstruction, public services restoration, agrarian reform, commodity food assistance, and traditional health and educational projects. The U.S. Export-Import Bank maintains a $100 million trade credit insurance program and a short- and medium-term import credit facility totalling $30 million. The U.S. Department of Agriculture's Commodity Credit Corporation (CCC) provided $25 million in medium-term credit guarantees for the import of agricultural products and livestock.

The Government is also in the process of negotiating an International Monetary Fund (IMF) standby agreement which would provide needed balance-of-payments support and possibly pave the way for greater World Bank economic assistance.

Fiscal Policy: As mentioned, the Government's fiscal policy entails an austere anti-inflationary program. The fiscal budget plan for 1990 calls for increases in central government nominal expenditures of only 2.2 percent, to 4.3 billion colones. Assuming an annual inflation rate of 18 percent, the budget proposal entails real spending drops of more than 15 percent. On the revenue side, the budget projects a 12.1 percent hike in current revenues and replaces the issuance of bonds as a revenue instrument, for more traditional tax sources of income. Foreign economic assistance (chiefly U.S. bilateral) continues to be a chief source of budget support funds.

Monetary Policy: As part of the stabilization effort, the Government implemented a monetary program which limited, for 1989, the increase in bank credit to the non-financial public sector and the private sector by 16.4 percent and 15.3 percent, respectively. Credit data through the end of September shows that annual credit levels are significantly below the targets. The monetary program targets a modest 14.3 percent annual increase in money supply (M2). Annual M2 growth in the first three quarters of 1989 was only 8.9 percent. Complementing the monetary growth targets are the upward readjustment of commercial bank deposit/loan interest rates to real (after inflation) levels. The new interest rate structure provides new incentives to increase domestic savings and encourages the channeling of financial capital to productive economic entities.

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2. Exchange Rate Policies

On July 25, 1989 the Government adopted a major reform/devaluation of the exchange rate structure. The new measures preserved the existing two-tier exchange rate system of an official market (at five colones per dollar), but widens the old dollar accounts market into a full interbank market for foreign exchange. The new interbank rate now applies to more than 75 percent of imports and 65 percent of export transactions. Under this system the exchange rate is determined on a daily basis by supply/demand factors set by commercial banks and their clients. The Central Bank sets a daily ceiling on the exchange rate for selling dollars at two percent below the existing parallel market rate. Currently, the principal transactions that remain at the officially fixed exchange rate include public sector debt payments and transfers, petroleum products, fertilizers, basic grains and a limited quantity of pharmaceuticals products. The Government has indicated its commitment to a gradual unification of the exchange rate.

The new exchange rate measures provide major incentives for exporters. Nonetheless, in purchasing power parity (PPP) terms the real market exchange rate remains significantly overvalued when compared with the currencies of key trading partners. This phenomenon is attributed to a combination of tight monetary policies, a restrictive import regime, and high levels of foreign exchange inflows derived from donor economic assistance and remittances from Salvadorans living abroad.

3. Structural Policies

Pricing Policies: In the past, the Government has relied on price controls and subsidies to check price movements on a wide array of consumer goods. These policies were weighted to favor the urban population at the expense of rural dwellers, and have contributed to stagnant agricultural production levels. On July 25, the Government moved to rely on market forces to determine price levels by eliminating price controls on 230 consumer products. The only prices that remain fixed include essential staples such as basic grains, wheat flour, edible oil, and sugar. In August, electricity tariffs, and bus fares were also raised to more realistic levels. Although bus fare increases are slight and remain heavily subsidized through the provision of diesel fuel to bus operators at one third the market price. In October, the price of domestically produced coffee, previously fixed by the state-owned National Institute of Coffee (INCAFE), was deregulated.

Tax Policy: Government current revenues depend most heavily upon the collection of export taxes (especially coffee), import levies, and indirect (sales) taxes. Income, net worth, and property transfer taxes also represent important sources of the Government's income. The maximum marginal income tax rate for individuals is 60 percent on annual earnings over $50,000. The top rate for foreign corporations is 35 percent (for earnings above $200,000).

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Nonresident corporations pay a flat rate of 22 percent on taxable income, and branch offices a flat rate of 39 percent. Salvadoran law does provide a myriad of fiscal benefits for both local and foreign firms. A common feature of these laws is exemption from both income and net worth obligations, and certain import tariff benefits for export-oriented firms. These tax exemptions tend to be in force for 5 to 10 years.

The Government has recently forwarded a tax reform package to the National Assembly which includes a uniform rate of five percent for the stamp (sales) tax. Another proposal is to simplify the income tax system by lowering the number of personal income tax brackets, raising the personal income tax exemption rate from 12,000 colones to 18,000 colones per year. Finally, the Government is seeking to base corporate turnover tax payments on a proportion of current sales (as opposed to the previous year's annual sales).

4. Debt Management Policies

As of the end of 1988, El Salvador's total external debt stood at [illegible]81 billion. The bulk of this debt (75 percent) is held directly by the public sector, 19 percent by the nationalized banking system, and only 6 percent by the private sector. Total medium- and long-term public external debt service (amortization and interest) amounted to approximately $350 million in 1988, representing roughly 57 percent of merchandise exports. Salvador's debt repayment record has been good by Latin American standards. This is reflective of the fact that the debt structure is a relatively favorable one, with most debt commitments being on soft terms with multilateral and bilateral official sources. Nonetheless, arrears have increased in recent years, and as of August 23, 1989 total debt arrears amounted to $130 million. An IMF program and a Paris Club rescheduling will enable El Salvador to reduce its debt service burden.

5. Significant Barriers to U.S. Exports and Investment

Import Controls: The Government has traditionally maintained a number of import controls that are aimed at protecting local industry and improving the merchandise trade balance. Import licenses are currently required for 44 customs categories that include live animals, fish, powdered milk, basic grains, fertilizers, and edible oil. Sanitary certificates are mandated for the import of unprocessed food commodities and live animals. The number of products the Government prohibits entry to has declined significantly from 200 in 1988 to the current 28, including tobacco, leather, and textile products and rugs.

In August 1989, the Government eliminated the requirement that importers place a prior deposit of 20 percent (CIF value) for opening letters of credit and a 50 percent deposit upon receipt of commercial documents from banks. The lowering of import tariff barriers, to a range of 5-50 percent, also represents an effort to liberalize trade. The practical effect of these diminishing import restrictions on U.S. exports has been minimal--the U.S. continues to be El Salvador's number one trading partner with a strong 45 percent share of the import market.

Services Barriers: Salvadoran barriers to service trade have generally not been significant--airlines, air couriers, insurance companies, and accounting firms all operate within the country. The 1980 nationalization of the banking system did place strict controls on the operations of foreign banks. Sight deposits in foreign banks are limited to 30 percent of total deposits, and 50 percent of the total loan portfolio must be funded by external resources. A recent action benefiting foreign bank companies was the Government's decision to permit the channeling of Central Bank rediscount credit lines through foreign banks.

Investment Barriers: El Salvador welcomes foreign investment. U.S., European, and Asian companies are represented in the market. An important change in the investment outlook occurred with the April 1988 passage of a new Investment Development and Guarantee Law. This Law provides the following benefits to foreign investors:

- allows foreign investment in all but small-scale enterprise;

- guarantees full repatriation of profits for most ventures, while increasing the limit of repatriation for service industries to 50 percent of reported investment (this limit was formerly 10 percent);

- authorizes the Ministry of Foreign Trade (now the Ministry of Economy) to register and regulate foreign investment; and,

- establishes a formal investment dispute resolution mechanism.

Foreign investment is not required to operate through joint venture. However, Salvadoran participation in the investment is often thought to be advantageous. Similarly, local management and control are not required by law, but in El Salvador's small and highly concentrated economic environment, local participation can be a valuable asset.

Procurement Policies: Government procurement practices pose no significant barriers to U.S. exports. Official purchase of food commodities are generally transactions under the PL-480 and CCC programs. Procurement for major infrastructure projects is almost exclusively funded by Aid, or other international lending agencies and hence, is subject to strict competitive international bidding procedures. During the past two years U.S. firms have made significant progress in marketing telecommunications equipment to the state telephone utility. Countertrade represents a small fraction of Salvadoran commerce.

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6. Export Subsidies Policy

El Salvador's 1986 Export Promotion Law establishes generous benefits for firms which export a minimum of 25 percent of their production in nontraditional goods (i.e., merchandise other than coffee, cotton, sugar, ocean shrimp, and beef) outside the Central American Common Market. The legislation provides for total exemption (generally for a 10 year period) from import duties on machinery, raw materials, and fuel. In addition, export firms may be granted an exemption from the payment of income and net worth taxes. All of these benefits are provided on a sliding scale in proportion to that percentage of production that is exported. Firms which export less than 25 percent of production are eligible to receive tax discount certificates at an amount equivalent to the duties paid on imported inputs.

The Law also provides investors involved in maquila (drawback/assembly) operations with a range of benefits, that includes the same duty and tax exemptions as those firms which export 100 percent of production. Finally, the Central Bank and state controlled commercial banking system has routinely provided soft term loans to nontraditional exporting firms.

The Government's recent reduction of import tariff duties may result in the loss, by local exporting firms, of some of the import tariff exemptions under the Export Promotion Law. It is likely that export firms may in future have to pay a minimum five percent duty on certain imported items. Moreover, the recent simplification of credit and interest rate policies will dramatically limit the availability of special credit lines.

7. Protection of U.S. Intellectual Property

El Salvador is a member of the World Intellectual Property Organization and a signatory to the Universal Copyright Convention and the Rome and Geneva Phonograms Conventions.

El Salvador's patent and trademark laws date from the first part of the century. Patent and trademark infringement is unusual here; legal remedy is readily available in local civil courts.

Protection of copyrights does present some problems. The pirating of audio cassettes is common. Unauthorized reproduction of video is not as prevalent, due to the fact that the market for such products remains small. It is believed that San Salvador's two television "cable" firms (actually UHF rebroadcasts) utilize at least some U.S. source material without the originator's consent, and without paying royalties.

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8. Worker Rights *

a. The Right of Association

The Constitution prohibits the Government from using nationality, sex, race, creed, or political philosophy to prevent workers from organizing themselves into unions or associations. There are approximately 150 trade unions, employee associations, and peasant organizations currently active, with a combined membership of just over 400,000. Legally, however, only private workers have the right to form unions and strike. Cumbersome, time-consuming legal procedures which must be completed before a legal strike is held are rarely fulfilled by unions, who generally resort to work stoppages or illegal strikes. Labor unions associate freely with international organizations.

b. The Right to Organize and Bargain Collectively

Both the Constitution and the Legal Code guarantee the right of collective bargaining, which is used extensively in the private sector. El Salvador currently has one export processing zone, which is subject to the same labor regulations as other sectors. However, there are no labor unions represented in any of the firms in this zone.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor except in cases of public calamity and other instances specifically determined by law. The law is generally well enforced.

d. Minimum Age for Employment of Children

The Constitution prohibits the employment of children under 14. The Labor Code states that exceptions can be made only where in cases where economic hardship can be demonstrated. The Constitution also prohibits the employment of persons under 18, and all women, in occupations considered hazardous and limits hours of work for minors between 14 and 18 to a maximum of six per day. The Ministry of Labor enforces these provisions by workplace inspections. In practice, enforcement is limited by severe budget constraints.

e. Acceptable Conditions of Work

The Government establishes a minimum wage for various sectors of the economy. Wages in the public and formal private sector are generally higher than the minimum. The legal workday is eight hours. The Constitution and the Labor Code spell out the rights of workers to a healthy and safe working environment. These regulations are enforced by the Ministry of Labor, which may conduct worksite inspections and levies fines on offenders.

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f. Rights in Sectors with U.S. Investment

Worker rights conditions in sectors with U.S. investment do not vary from those in other sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		22
Total Manufacturing		18
Food & Kindred Products	0	
Chemicals & Allied Products	8	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		-3
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		37

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

Section 8 is an abridged version of Section 6 of the El Salvador country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

GUATEMALA

Key Economic Indicators

(Millions of 1980 Quetzals (Q) unless otherwise noted)

	1987	1988	1989 (proj)
Income, Production, and Employment			
Real GDP 1/	7710	7995	8299
Real GDP growth rate (pct)	3.5	3.7	3.8
Manufacturing	2.0	2.2	2.9
Agriculture	3.9	4.3	2.4
Mining	-1.2	4.8	4.5
Construction	14.4	12.9	5.1
Utilities	7.9	8.2	2.8
Transportation	4.8	3.9	4.5
Commerce	2.9	3.1	3.5
Finance	3.4	5.8	3.5
Housing	1.8	1.9	4.4
Public admin/defense	5.4	3.7	2.8
Services	1.8	3.5	3.7
Real per capita GDP (1980 Q) 1/	909	911	916
Labor force (000s)	2648	2722	2816
Unemployment rate (pct)	12.1	9.6	7.2
Money and Prices			
Money supply (M1) (mils Q)	4671	5189	5844
Commercial interest rates (pct)			
Savings	11	13	13
Loans 2/	14	14	16
Savings rate (pct GDP at current prices)	16.1	16.6	n/a
Investment rate (pct GDP at constant prices)	8.6	9.4	9.9
CPI (pct chg from previous yr)	10.1	11.0	14.0
WPI (pct chg from previous yr)	(n/a since 1986)		
Exchange rate (Q/$) 3/			
Official	1.00	2.70	n/a
Regulated	2.50	2.70	n/a
Banking system parallel	2.69	2.70	2.80
Black market 3/	2.73	2.67	2.82
Balance of Payments and Trade (mils $)			
Total exports FOB	987	1074	1155
Exports to U.S.	399	281	350
Total imports CIF	1447	1556	1695
Imports from U.S.	558	580	630
Aid from U.S.	200	152	148
Aid from other countries	n/a	n/a	n/a
External public debt	2699	2700	2800
Annual debt service (paid)	161	208	n/a
Gold and forex reserves	465	382	455
Balance of payments trade	-460	- 483	- 540
Current account	-600	- 520	- 561

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1/ Embassy estimate, using 1980 as base year.
2/ In August 1989, the monetary authorities freed interest rates for deposits and loans, but the banks decided not to adjust these before January 1990.
3/ In November 1989, the monetary authorities freed the exchange rate. In mid-December 1989, the banking system (market) rate was approximately 3.43/$1.00 (average), while in the black market the average rate was approximately 3.40/$1.00.

1. General Policy Framework

Guatemala is the largest economy in Central America, at roughly $10 billion per year. With rich soil and diverse climates, the country enjoys outstanding comparative advantages in agriculture, which contributes 25 percent of GDP and 75 percent of export earnings, aided by the Caribbean Basin Initiative (CBI), non-traditional exports to the United states have increased by 210 percent since 1983, to $200 million, and which provides employment for nearly 60 percent of the labor force. The Guatemalan public sector is, in relative terms, one of the smallest in the world, at 10 percent of GDP, and the country's tax burden among the lightest. Throughout the decades of the 1960s and 1970s, the Guatemalan economy was stable and growing. By 1980, however, the global recession, regional and internal instabilities, unsound domestic policies, and the effective collapse of the Central American Common Market (CACM) combined to push the country into an economic tailspin.

By 1985, Guatemala was suffering an acute economic crisis: real per capita GDP had plummeted by 25 percent, inflation was climbing towards 40 percent, and the international value of the currency depreciated 75 percent. Since taking office in January 1986, the democratically-elected government has succeeded in restoring real per capita growth, reducing inflation (from 37 percent in 1986 to 12-13 percent in 1987 and 1988) and implementing more open, market-oriented policies designed to encourage exports and promote economic diversification. The rate of growth of the economy was 3.1 percent in 1987, 3.5 percent in 1988, the first year of positive per capita growth since 1980.

Guatemala's estimated 1989 fiscal deficit was a relatively modest 2.5 percent of GDP; a similar figure is expected for 1990. On taking office, the current administration set a goal of increasing tax revenues by one percent of GDP annually and improving tax collection. The centerpiece of this effort, a tax reform package adopted in late 1987, did succeed in raising government revenues in 1987 and 1988, but tax collections in 1989 were below expectations. The Government is preparing a long-term review of its budgeting and fiscal structure to determine what changes may be needed to generate the revenues necessary to support greater investment in human resources and economic infrastructure.

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The current Guatemalan Government finances its deficit primarily through bond placements and external savings (concessional loans and grants from international donors), instead of routinely borrowing from the Central Bank as in previous years. It has kept monetary expansion in check through reserve requirements and an aggressive policy of encouraging public agencies to place their deposits with the Central Bank rather than commercial banks. The monetary authorities are in the process of developing new open market instruments that will enable them to carry out monetary policy more effectively.

Despite generally sound economic adjustment policies, Guatemala continued to lose international reserves in 1987, 1988, and 1989, the result of a persistent balance-of-payments current account deficit and insufficient autonomous capital inflows to finance it. Strong import demand (much of it for production goods) and weak prices for traditional exports (notably coffee) are key elements contributing to the current account imbalance. In August and November 1989, the Government moved to correct the situation by decreeing unprecedented changes in Guatemala's foreign exchange and interest rate markets, described below. The new macro policies appear to be working.

2. Exchange Rate Policies

Faced with a virtual foreign exchange crisis, the Bank of Guatemala replaced its recently instituted flexible, but managed, exchange rate regime in favor of a freely floating exchange rate system on November 3, 1989. Under the new system, the Bank neither establishes the exchange rate, nor is obligated to buy or sell foreign exchange to the private sector. Instead, the private market determines the exchange rate necessary to balance the supply of and demand for foreign exchange. Foreign exchange is now bought and sold to the public through the commercial banking system.

The policy change was successful. The Central Bank's loss of international reserves was halted and, after an initial expected depreciation, the exchange rate stabilized. Private sector capital repatriation responded rapidly, increasing the supply of foreign exchange and dampening speculative fluctuations. After averaging about $0.8 million per week during the June to October period, private sector capital inflows increased to a weekly average of $5.8 million in November 1989.

Two markets for foreign exchange have emerged: a prime market for the best clients of commercial banks, and a general market for individuals. Throughout the initial adjustment period, the purchase rate in the prime market was about three percentage points higher than that in the general market. That differential reflects the higher costs of handling the relatively smaller transactions that predominate in the general market.

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3. Structural Policies

The Guatemalan Government has undertaken a structural reform program designed to change the thrust of development in order to emphasize integration into the international economy. This contrasts sharply with the protectionist, import substitution strategy followed for the previous 25 years.

Economic policy changes associated with the new strategy include: raising taxes and reducing the fiscal deficit; restraining growth of domestic credit, especially to the public sector; eliminating most price controls (only a handful of basic staples remain subject to controls); completely freeing interest and exchange rates; adopting a new law providing fiscal incentives for investments in nontraditional export industries; and laying legal groundwork for promotion of private development of free trade zones. These reforms are far-reaching and will make the Guatemalan economy more resilient over time.

There has been a greater lag in implementing economic reforms in the agricultural sector, where the Government continues to restrict trade and support less efficient local producers through a variety of tariff and non-tariff barriers. Nevertheless, the combination of trade liberalization and economic recovery, spurred by increased international donor assistance (both project financing and balance-of-payments support), offer positive prospects for increased U.S. exports to Guatemala.

4. Debt Management Policies

Guatemala is unusual among lesser-developed countries in the hemisphere in having a comparatively modest external debt burden. Moreover, the country has steadfastly acknowledged its external debt and has a good payment record. It does, however, have a somewhat burdensome short-term debt service problem (the bulge in scheduled payments has a three-year duration). To manage this short-term burden, the Government has taken two principal approaches. First, it has renegotiated its debt to foreign commercial banks, on commercial terms. Second, it has negotiated with holders of dollar-denominated bonds for exchanges of high yielding local currency debt with longer maturities.

5. Significant Barriers to U.S. Exports and Investment

U.S. industrial exporters and investors looking at Guatemala will find a relatively open market. Exporters of U.S. agricultural products, on the other hand, still face stiff import restrictions. All Guatemalan imports, except those imported under special industrial incentive programs and direct government imports, are subject to the relatively high common external tariff of the Central American Common Market. The newly-approved common tariff retains stiff ad valorem rates on the CIF values of essentially all manufactured goods, but eliminates the weight of volume duties and a previous 30 percent surcharge. A value-added tax now set at 7 percent on the sum of ad valorem duty and the CIF value of the import remains in effect.

In spite of these high tariffs, imports in every category except agriculture are allowed into the market unaffected by significant non-tariff barriers. Guatemala's trade policy continues in general to support an open economy in which consumer preferences play the major role in selection and demand. Foreign investors traditionally are welcomed and face few legal impediments, although bureaucratic red tape can be frustrating. Within this open environment, there are four areas of specific concern to both the U.S. trader and investor:

- government policies for the banking, auditing, insurance, and airline industries that hinder U.S. service exports;
- selective government procurement practices;
- government licensing of agricultural imports; and
- customs valuation procedures.

Government Policies toward Banking, Auditing, Insurance and Airlines: While there are few formal, transparent requirements that limit the entry of or discriminate against U.S. companies in these service industries, informal approval procedures do restrict market entry. In the banking industry, only two foreign banks are presently operating--Lloyds (entry 60 years ago) and Bank of America (entry in the late 1950s.) In 1989, Bank of America announced its intention to withdraw from the Guatemalan market, while Citicorp won approval to open a branch office. In recent years, several U.S. banks have attempted to gain access to the Guatemalan market, only to find their entry petitions blocked by the local banking industry. In addition, the two foreign banks currently in Guatemala face operating restrictions that do not apply to their local competitors and serve to restrict their ability to penetrate the Guatemalan market.

Insurance firms from the United States face a different set of procedural issues. By law, only national insurance companies may operate in Guatemala, with the U.S. insurer in the role of re-insurer. A local company affiliated with a U.S. insurer claims that, to obtain approval to enter the market, companies must guarantee that all directors will be Guatemalan citizens. Recent decisions by regulatory authorities have caused some firms problems in remitting foreign exchange from their re-insurance business to their affiliates. Like insurance companies, the accounting industry is also reserved exclusively for national companies. However, national accounting firms may associate with U.S. accounting firms, and U.S. companies may participate in Guatemala in the tax and consulting side of the business. The entry of new

U.S. airlines into the Guatemalan market has also been problematic due to opposition from Aviateca, Guatemala's national airline. In addition, U.S. airlines believe that they are discriminated against in their local tax treatment. Due to general tax legislation in 1987, U.S. airlines face significant increases in their Guatemalan tax burden.

Government Procurement Practices: In general, all government purchases over $55,000 must be submitted for public competitive bidding and no fewer than five bidders must participate. U.S. major project suppliers have recently expressed concern over increasing violations of this transparent government procurement procedure. They charge that in recent years public purchases increasingly are being made directly under the exemption allowed for emergency purchases, or projects have been broken up into amounts of less than $55,000 to evade the public bidding requirement. There are also complaints that in recent years bilateral development assistance from European countries has been tied to commercial purchases made on a noncompetitive basis.

Government Licensing of Agricultural Imports: The Government of Guatemala limits the importation of many agricultural products through import tariffs ranging from 5 to 40 percent, and non-tariff barriers in the form of import licensing requirements. Most serious in the latter category are import licensing requirements for grains, oilseed products and other bulk items. Such licenses are issued by different Government agencies, and are frequently issued in a manner that favors one country of origin over another, or ties import approval to local purchases. Some products are occasionally banned, such as apples during the Christmas holiday season.

Customs Valuation Procedures: Current customs valuation procedures are a potentially significant trade barrier. Established importers of U.S. products complain that under-invoicing of imports and outright contraband is widespread, damaging their relationship with the U.S. exporter. Customs officials are sometimes subject by importers to pressure to under-report import values; in other cases they arbitrarily charge duties at an artificial price above that on the commercial invoice.

For example, printed promotional materials for movies brought in by a distributor of U.S. films are charged a 74 percent duty on a value three times the actual cost, to encourage use of the local printing industry. In sum, customs valuation procedures can be arbitrary and often opaque.

6. Export Subsidies Policies

Export subsidies are generally not a problem. On the contrary, in June 1986 the Government imposed export taxes on all exports. The tax rate varies from around 30 percent for traditional exports destined to non-Central American markets to four percent for Central American markets and nontraditional exports. These taxes are being phased out gradually. In November 1989, the Government promulgated a new export incentive drawback law. Under this law, properly registered export companies may import duty free, for a period of one year, the following: raw materials, semifinished goods, intermediate goods, capital goods, packaging materials, and containers. The income resulting from the export of merchandise under this law will enjoy total income tax exemption for a period of ten years. Under this law, traditional agricultural exports will no longer receive any export incentives. Nontraditional exports to non-Central American destinations will be exempt from all export taxes and there will continue to be duty free importation of necessary raw materials and intermediate goods.

7. Protection of U.S. Intellectual Property

Guatemala is a member of the World Intellectual Property Organization and a party to the Universal Copyright Convention.

Guatemala has legislation to protect patents and trademarks, but enforcement efforts are sporadic and ineffectual. Legislation on copyrights is antiquated and ineffective. U.S. subsidiaries in the pharmaceutical, film, computer, and telecommunication industries are particularly concerned about patent and copyright infringement.

Pharmaceutical Products: Affiliates of U.S. pharmaceutical companies in Guatemala are most concerned about the patent infringement issue. There is no effective patent protection provided by the Guatemalan Government, as the Ministry of Health encourages the entry and use of copied products and does not coordinate its Medical Products Registry with the Ministry of Economy's Patent Registry. As a result, U.S. firms do not export or produce their newest and most advanced products in Guatemala.

Computer Software: Copyright protection apparently is not an important issue for mini- and mainframe products. Distributors of U.S. software for personal computers claim, however, that piracy is widespread for basic package software. The same holds true for U.S. producers of video cassettes.

Cable Television: Cable television has proliferated in recent years in Guatemala, with up to 60 different cable companies reportedly operating in Guatemala City alone. This is an unregulated industry where payment of royalties and access rights is the exception rather than the rule. The direct economic impact of this widespread piracy is not known. There are informal reports from distributors of U.S. films that cable television has decreased movie attendance by 40 percent, representing a revenue loss of $1 million.

It is impossible at present to estimate the exact losses to U.S. companies resulting from nonenforcement of Guatemala's intellectual property laws. Clearly, however, U.S. exporters and producers of pharmaceutical products, software, and film and television programs are losing considerable revenue to pirate companies in Guatemala. This revenue loss includes not only losses from sales of pirated goods, but also from products withheld from Guatemala because of the absence of intellectual property safeguards.

8. Worker Rights *

a. Right of Association

The Government must grant legal status for unions to operate legally, and the procedures are cumbersome. Although they are speeding up. More than 60 unions were recognized in each of the last two years, increasing the number of legal unions by 20 percent. Labor leaders complain that competing unions are able to organize in companies negotiating contracts and that solidarity associations, which function with management encouragement, make "no strike" agreements.

b. Right to Organize and Bargain Collectively

The Labor Code allows collective bargaining, but emphasizes the protection of individual workers. The greatest obstacle to organizing and bargaining is not the law, but lawlessness. Demands for economic benefits are often met with threats and violence.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced labor and specifically states that service in civil defense patrols is voluntary. The patrols have been successful in restricting guerrilla movements in conflictive areas, and armed forces encourage their perpetuation, citing the constitutional requirement that all citizens help defend the nation. The patrols do not appear to violate international conventions on forced labor.

d. Minimum Age for the Employment of Children

The Constitution provides a minimum age of 14 for the employment of children. In the informal sector, this (along with other labor regulations) is not effectively enforced and children sell, beg and guard cars on the street. In the industrial sector, where government labor codes are enforced, child labor does not appear common.

e. Acceptable Working Conditions

The Constitution provides for a 44-hour work week. While occupational safety and health regulations exist, their enforcement is not effective. Overworked inspectors from the Ministry of Labor are more concerned with other aspects of the Labor Code. The minimum wage for farm labor is less than $2.00 per day.

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f. Rights in Sectors with U.S. Investment

Union leaders believe that international corporations in Guatemala have shown more respect for worker rights than have their Guatemalan counterparts. While there have been occasional problems with U.S. investors (e.g., Coca Cola in the 1970s), international public opinion has brought pressure on them as transgressors of worker rights, something that could not be done with local investors. U.S. companies operating in Guatemala are less likely to be unionized than their U.S. parent, but more likely to have unions than their Guatemalan competitors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		42
Total Manufacturing		110
Food & Kindred Products	40	
Chemicals & Allied Products	34	
Metals, Primary & Fabricated	8	
Machinery, except Electrical	0	
Electric & Electronic Equipment	-1	
Transportation Equipment	0	
Other Manufacturing	29	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Guatemala country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

HAITI

Key Economic Indicators

(Millions of dollars ($) and period
averages unless otherwise noted)

1/	1987	1988	1989
Income, Production and Employment			
GDP current prices (bils $)	2.16	2.21	2.40
GDP per capita current prices ($)	351.00	352.00	376.00
Real GDP (1976 prices) (bils $)	1.03	1.01	1.01
Real GDP growth (pct)	0.60	-1.50	-0.50
Real GDP per capita ($)	167.00	162.00	158.00
Real per capita GDP (pct)	-1.20	-3.20	-2.30
GDP by sector (pct)			
Agriculture	27.50	27.50	27.50
Commerce	17.00	17.00	17.00
Manufacturing	15.00	15.00	15.00
Construction	6.50	6.50	6.50
Mining/fishing/forestry	5.00	5.00	5.00
Government	4.00	4.00	4.00
Other	25.00	25.00	25.00
Population (millions)	6.16	6.27	6.38
Labor force (millions)	2.76	2.80	2.84
Unemployment (pct, est) 2/	25-50	25-50	25-50
Money and Prices			
Money & quasi-money supply	626.7	695.6	782.7
Interest rates (1-yr CD) (pct)	10 - 17	7 - 11	7
Consumer price index (1978 = 100)	153.0	165.8	186.0
Gross domestic investment	280.0	250.2	n/a
Gross national savings	97.0	83.4	n/a
Gross official reserves (weeks of imports)	4.1	6.0	1.33
Gold and forex reserves 3/	-19.9	-0.9	-18.0
Exchange rate (gourde/$1.00)			
Official	5.0	5.0	5.0
Parallel (est)	5.4	6.25	7.0
Balance of Payments and trade			
Total exports FOB	200.5	205.2	186.2
Exports to U.S. share (pct)	84.0	n/a	n/a
Total imports CIF	320.9	303.4	313.7
Imports from U.S. share (pct)	64.0	n/a	n/a
External debt	763.3	756.5	782.5
Annual debt service payments (paid)	59.4	60.9	56.2
External debt (pct of GDP)	35.3	34.3	32.6
Annual debt service (as pct expts)	19.9	20.4	19.0
Overall balance of payments	28.9	17.0	-12.0
Balance of trade	-120.4	-98.2	-127.5
Aid from U.S.	78.4	48.6	48.6
Aid from the other countries	89.6	93.4	75.4
Total foreign aid disbursements	168.0	142.0	124.0

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1/ The Haitian fiscal year is October 1 - September 30.
2/There are no reliable data on unemployment in Haiti.
3/Net international reserves of the banking system.

1. General Policy Framework

Haiti's six million people live in an area about the size of Maryland. Its population is the poorest in the western hemisphere, with an annual per capita income of about $370. Adult literacy is about 25 percent. Much of the island is covered by mountains, but a good part of the natural tropical vegetation has been destroyed, resulting in serious problems of soil erosion. Only about 30 percent of the land is considered arable, but some 40 percent of the land is cultivated, nevertheless. Agriculture is primarily small scale subsistence, with corn the major staple for peasant farmers. Rice is another important staple, but because of inefficient cultivation, the country has been increasingly relying on lower cost U.S. rice in recent years. Coffee is the country's largest cash crop. Until a few years ago, highly protected import substitution industries producing consumables for the local market comprised an important part of the country's modest industrial sector. A liberalized trade policy since the 1986 fall of the Duvalier dictatorship has increased the relative importance of the export assembly sector, the other major area of industrial activity.

Fiscal reforms initiated in 1986 set the country on a sound macro-economic footing, but subsequent watering down of the reforms, combined with a drop in coffee prices and politically-related externalities, has caused a significant economic downturn. With IMF and World Bank support, the initial post-Duvalier Government closed two inefficient government-owned monopolies, rewrote the tax code, eliminated export taxes, lowered import tariffs and eliminated all import quotas except for seven agricultural products. Subsequent attempts to balance the budget have been hampered by a loss of revenues attributable in part to transitional inefficiencies which inevitably accompany shifts in tax orientation, to a loss of foreign assistance following post-election violence in 1987, to the Government's failure to make a significant dent in its public payroll expenditure and to the increasing availability of "duty free" contraband goods.

In the area of monetary policy, government restrictions on interest rates for both deposits and loans have been loosened in order to encourage savings and introduce greater flexibility and competition in making loans. As a tool in controlling the money supply, the Government relies primarily on manipulation of government deficits/credits. Adjustment of reserve requirements is rarely used, and open market operations not at all.

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2. Exchange Rate Policies

Haiti's currency, the "gourde," has long been officially tied to the U.S. dollar at a rate of five to one. Since the early 1980s a parallel market exchange rate has developed which, until recently, rarely produced a dollar premium of 20 percent. A growing public sector deficit, reductions in foreign assistance and diminishing terms of trade have contributed to the fall in the value of the gourde since 1987. Government efforts to reverse the trend by restricting parallel market transactions in July 1989 only frightened many dollar holders away from Haiti's exchange markets. The premium on dollars has subsequently been running at well over 30 percent, and has just recently climbed above 40 percent.

The new exchange controls essentially require all major generators of hard currency (exporters, transfer houses, so-called "non-governmental organizations") to surrender 100 percent of their hard currency earnings directly into the banking system. The Central Bank has discretionary power to set the percentage to be returned to the commercial banks for their own use; since the July 1989 Exchange Control Decrees, the Central Bank has set the percentage at fifty percent. With fewer and fewer dollars now passing from the foreign exchange generators through the commercial banks, hence to the Central Bank, commercial banks are reporting that the number of days they must wait for the return of their dollars has been increasing steadily. Under a very recent amendment to these new regulations, the commercial banks may return to exporters seven and a half percent of the foreign exchange they submitted, to be used as they see fit.

3. Structural Policies

Haiti is essentially a market-oriented economy. Although a residue of traditional French style "dirigisme" remains, particularly in the powers still reserved to the state, the market follows its own laws. In the few areas where the Government does try to control prices or supplies, its efforts are frequently undercut by contraband or overwhelmed by the sheer number of minor retailers. Ex-factory prices on domestically-produced goods such as flour and cement are set with reasonable effectiveness, but what the consumer pays beyond that is governed by levels of supply and demand. Gasoline pump prices and utility prices, which are both efficiently regulated, are probably the only exceptions to the rule. The Government does little subsidizing of domestically produced goods, beyond permitting manufacturers to purchase imported inputs at the official exchange rate. Many imports of finished products benefit from this same exchange rate subsidy, however, although hard currency shortages may soon reduce these to essential products such as petroleum.

Until now, government subsidies through the exchange rate have probably done more to help U.S. exports than promote production of domestic substitutes. As foreign currency at the official rate becomes increasingly scarce and parallel market premiums increasingly dear, consumers are fighting price increases by relying more on contraband imports whose duty free advantages at least partially offset the de facto local currency depreciation. As indicated earlier, more economically sound tax reforms were implemented a few years ago, including the elimination of export taxes, and these should contribute to economic growth to the extent that they are less intrusive upon private sector economic activity. Corporate and income taxes are largely evaded, so much of the burden on the taxpayer is attributable to consumption taxes, which come in two forms: tariffs and a so-called value-added tax (TCA) which is a straight 10 percent levy on most items.

4. Debt Management Policies

Haiti has managed its foreign debt fairly well throughout the 1980s, but the situation has deteriorated somewhat over the last few years. Most of the country"s public debt is of the concessional variety, with only about 10 percent of the country's $782 million external debt owed to commercial banks. Arrears on foreign debt increased from $12 million at the end of FY1987 to $28 million at the end of FY1989, including $12 million with the IMF. The latter was cleared up in September 1989 through commercial bank bridge financing which paved the way for a standby agreement with the Fund that should provide Haiti with $26 million over the next 15 months. Among the objects of the IMF stabilization program is a reduction of domestic financing of the public sector deficit from an estimated 2.4 percent of GDP in FY1989 to 0.6 percent in FY1990. Haiti's debt service as a proportion of goods and services exports is estimated at about 19 percent for 1989 and is expected to drop to 17.9 percent in 1990.

5. Significant Barriers to U.S. Exports and Investment

Haiti's officially registered imports amount to about 13 percent of its GDP, a figure which would be higher if contraband goods were counted. About two-thirds of Haiti's imports come from the United States. The country is virtually wide open to U.S. exports. In 1986, 217 products required import licenses. Today, only seven products do. The products--rice, corn, millet, sorghum, sugar, fifth-quarter of pork, and poultry parts--are produced domestically. In addition to the standard trade protectionist motives for the remaining import licenses, the Government also hopes to preserve limited foreign exchange for the importation of other essential goods not available through local production. Nevertheless, a number of the products still subject to import licensing, particularly U.S. rice and Dominican sugar, are readily available as contraband.

Trade in services is fairly open. Foreign banks are major players in the Haitian economy. Restrictions on foreigners renting out properties, however, have the effect of keeping foreign banks out of the mortgage business. A foreigner wishing to provide legal services in Haiti would find the road difficult but not impossible. In the area of civil aviation, three U.S. air carriers operate international flights in and out of Haiti, but foreigners would have to form a local company with Haitian partners to provide domestic air service.

Most products which would lend themselves to trade protection through abuse of standards and certification requirements are not produced domestically in Haiti. More so than in most places, the operating principle in Haiti is "let the buyer beware." Similarly, the limited variety of locally produced goods would make "buy national" policies in the government procurement area impractical.

No significant investment barriers apply to Haiti. The present provisional Government's stated objective is to attract investors, but the uncertainty about foreign exchange availability and the uneasy political climate stand as major obstacles.

6. Export Subsidies Policies

Until a few years ago, the Government actually penalized agricultural exporters by charging an export tax. In the 1986 economic reforms, the Government eliminated all export taxes in recognition of the sector's importance to economic development, but it has not gone as far as subsidizing exports. In fact, through recent currency regulations requiring exporters to surrender their foreign exchange at the official exchange rate, the Government in effect has begun to levy an indirect tax by preventing exporters from reaping previously available parallel market premiums on their export revenues. The only practice resembling an indirect export subsidy is the duty exemption available to semi-finished products which are processed locally and reexported. Haiti is not a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Haiti is a party to the Universal Copyright Convention, the Buenos Aires Convention of 1910, and the Paris Convention of 1883.

Intellectual property is not a burning issue in Haitian trade or commercial circles. Again, the economy produces a relatively small variety of products. Much of what it does produce in the manufacturing sector is for export to countries like the U.S., which could not tolerate open patent infringements. The bulk of manufactured goods sold in the local market are imported. There is a modest amount of video piracy taking place. Because legal protections for patent or copyright holders are virtually nonexistent, the potential for more extensive abuse of intellectual property rights exists, especially if economic activity in Haiti were to pick up. For the moment, however, the problem is insignificant, particularly when viewed in the context of the overwhelming demands posed by Haiti's staggering economic backwardness.

HAITI

8. Worker Rights *

a. The Right of Association

Workers and employers do not need government authorization to establish and join organizations; a minimum of 10 members for workers' groups and 6 for employers' groups is required for official recognition. Workers, including civil servants and public sector employees, are free to organize unions under the Constitution. Unions are not controlled or restricted by the Government but they may not engage in commercial activities or concern themselves with matters unconnected with the defense of worker rights.

b. The Right to Organize and Bargain Collectively

Haitian labor unions remain weak for social, historical, and economic reasons. Union contracts do not yet exist; rather, unofficial informal, mostly unwritten agreements, and in some cases, tacit acceptance, allow the presence of unions in plants.

c. Prohibition of Forced or Compulsory Labor

The Labor Code prohibits forced or compulsory labor. There were no charges of forced or compulsory labor in 1989.

d. Minimum Age for Employment of Children

The minimum age for factory employment is 12. Fierce adult competition for jobs ensures that child labor is not an issue. In both rural and urban areas, children often work at odd jobs to supplement family income.

e. Acceptable Conditions of Work

The revised 1984 Labor Code (currently under revision) governs individual employment contracts, protects apprentices and women, and establishes minimum health and safety standards, particularly for hazardous occupations. The Code sets the normal workday at 8 hours, and the work week at 48 hours, with 24 hours' rest on Sunday. The Code provides for paid annual leave of at least 15 consecutive working days. Workers may take up to 16 days' annual sick leave. The current daily minimum wage prescribed by law is $3.00 in Port-au-Prince and $2.54 in the rest of the country. The Government has not systematically enforced labor laws regarding wages and safety, but the industrial sector generally adheres to at least minimum standards.

HAITI

f. Rights in Sectors with U.S. Investment

Although workers in U.S.-owned industries tend to be better paid and enjoy better working conditions, there is no formal difference in worker rights between those sectors where U.S. capital is invested and those where it is not.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		3
Total Manufacturing		15
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	15	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		18

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Haiti country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

HONDURAS

Key Economic Indicators

(Millions of lempiras (La) unless otherwise noted)

	1987	1988	1989 (proj)
Income, Production, and Employment			
GDP (constant 1978 prices)	4658	4842	4963
Real GDP growth rate (pct)	4.9	4.0	2.5
Real GDP by sector			
Agriculture	1338	1372	1406
Manufacturing	711	746	765
Commerce	557	572	586
Services	437	454	465
transport	383	402	412
Finance	278	292	299
Government and defense	243	254	260
Other	711	750	770
Real per capita income (La)	1003	1009	1007
Labor force (millions)	1.468	1.492	1.522
Unemployment rate (pct)	11.0	12.0	12.0
Money and Prices			
Money supply (M1)	1080	1215	1397
Interest rate (pct)	16.2	17.0	17.0
Savings rate (pct of GDP)	6.8	7.7	7.5
Investment rate (pct of GDP)	14.6	13.4	13.0
CPI (1978 = 100)	196.3	206.7	240.0
WPI (1978 = 100)	169.7	177.2	191.4
Exchange rate (yr-end)			
Official	2.00	2.00	2.00
Parallel	2.85	3.10	4.50
Balance of Payments and Trade			
Total exports FOB	1964	2058	2161
Exports to U.S. (goods only)	900	894	939
Total imports CIF	2676	2786	2925
Imports from U.S. (goods only)	705	721	757
Aid from the U.S. (mils $) 1/	163	145	74
Aid from others (mils $)	313	270	100
External debt (mils $)	2938	3069	3146
Annual debt service (paid)	423	403	50
Gold and forex reserves	193	110	69
Balance of payments			
Balance of goods/services	-712	-729	-764
Transfers	263	270	200
Capital account	431	267	200
Errors and omissions	101	233	364
Net change in internat'l reserves	-83	-41	0

1/ estimated - this figure does not include $70 million of FY89 ESF obligated but not disbursed in 1989.

Sources: Central Bank of Honduras, U.S. Embassy, and the IMF.

HONDURAS

1. General Policy Framework

Honduras is one of the poorest and least-developed countries in Latin America. The economy is based primarily on agriculture and related areas, as there are extensive arable land, forest, marine, and mineral resources. While the unemployment rate is officially estimated at 12 percent, underemployment is much higher. Honduras has one of the highest population growth rates in Latin America at 2.8 percent. After the severe recession of the early 1980s, Honduras has achieved moderate economic growth, partly due to sizable U.S. economic assistance.

During 1988, the economy grew 4.0 percent, led by increased banana exports, the country's main export product. Increased exports of minerals, cultivated shrimp, and other nontraditional products also contributed to the economy's growth. In 1988, for the second year in a row, Honduras achieved an increase in real per capita GDP; this was accompanied by a rate of inflation officially calculated at 4.5 percent. Official statistics, however, understate actual inflation due to the use of an inappropriate market basket; the real rate of inflation in 1988 was probably at least 10 to 15 percent.

The United States is Honduras' chief trading partner, supplying about 39 percent of its imports (goods) and purchasing about 51 percent of its exports (goods). Leading Honduran exports to the U.S. include fruits and vegetables, coffee, seafood, and beef. The U.S. accounts for about 85 percent of total direct foreign investment in Honduras, worth an estimated $250 million. The largest U.S. investments are in fruit (particularly banana) production, oil refining and marketing, and lead/zinc mining. U.S. corporations have also invested in tobacco, shrimp culture, beef, poultry, animal feed production, insurance, leasing, food processing, brewing, and furniture manufacturing.

The Honduran economy suffers from serious structural problems that must be overcome in order to achieve long-term rates of growth above the rate of population increase. These problems include large fiscal and balance-of-payments deficits, a bloated public sector, inefficient state enterprises, an overvalued exchange rate, and government policies that hinder savings, investment, and exports. As a result, Honduras cannot service its official and private debt and is overly dependent on external economic assistance, particularly from the United States. During 1985-88, Honduras received $816 million in U.S. economic and military assistance. Of this total, $586 million was direct economic aid, the majority of which was economic support funds (ESF) which consists of balance-of-payments transfers. In FY1990, Honduras could receive as much as $130 million in ESF due to a carryover of $70 million which was not disbursed in 1989.

Our policy dialogue with Honduras emphasizes macro-economic adjustment. The Honduran Government acknowledges the need for reform but action has been slow.

For example, the central government fiscal deficit was equal to 7.1 percent of GDP in 1988, and will likely rise to 8 percent in 1989. The deficit is financed by the sale of government bonds, external borrowing, and overdrafts. In 1989, Honduras failed to reach agreement with the International Monetary Fund (IMF) on the terms of a standby arrangement. As a result, the World Bank was unable to disburse the second tranche of its structural adjustment loan. Compliance with the conditions required by these international financial institutions will require significant measures by the new government in 1990.

In response to encouragement from the U.S. Government, the World Bank, and the IMF, the Honduran Government enacted some new exchange and fiscal measures in 1989 which expanded the Cetra exchange market (Cetra's are dollar-denominated certificates earned by exporters which are traded through the commercial banking system), and attempted to reduce the fiscal deficit. Unfortunately, election year pressures prevented the enactment of significant fiscal reforms in 1989 and, as a consequence, the U.S. did not disburse $70 million in balance-of-payments support. The Government also continued its process of privatizing state-owned enterprises. While these measures represented modest improvement, the economy continues to face a fundamental anti-export bias because of the severely overvalued exchange rate. Until a realistic exchange rate regime is adopted, along with complementary monetary and fiscal measures, the economy will be unable to achieve positive per capita rates of growth over the long term.

2. Exchange Rate Policies

Honduras has maintained a fixed official exchange rate of 2.00 lempiras/$1.00 for over 70 years. As the exchange rate became increasingly overvalued in recent years, Honduras' exports became less competitive relative to those of its neighbors. The 1950 Banking Law gives the Central Bank an absolute monopoly over foreign exchange transactions in Honduras. Since mid-1989, however, the Central Bank has received less than half of total export revenues which it allocates for purchases of essential imports at the 2:1 rate. The Central Bank exercises strict control over import permits and has established a system of three import category priorities as well as quotas to allocate the limited supply of foreign exchange. Approximately 70 percent of imports now must be financed either at the Cetra rate or at the parallel (free market) rate.

The queue to obtain foreign exchange at the official rate has forced waits of up to nine months, and over 100 million lempiras have been deposited at the Central Bank to purchase dollars. A parallel (illegal but usually tolerated) exchange market has developed which accounts for more than 50 percent of all foreign exchange transactions in the country. The parallel market rate declined to a historical low of 4.05 lempiras/$1.00 during August 1989, prompting government intervention (fines and the threat of imprisonment) which temporarily strengthened the lempira. The rate began to drop again in October and fell to 4.5/$1.00 by the end of the year.

In response to the increasing pressure on the balance-of-payments, the Honduran Government took additional steps in mid-1989 to liberalize the foreign exchange regime. The measures helped to increase the transparency of the system and were another step toward the establishment of a legal parallel market. The Cetra program, begun in early 1988, now permits exporters of most products to claim at least 50 percent of their export earnings for imports of essential products. Multinational exporters of bananas and minerals have their own self-financing agreements which permit them to retain up to 70 percent of their foreign exchange earnings for their own import requirements. Beginning with the 1989/1990 crop, exporters of coffee can claim 50 percent of their foreign exchange revenues in the form of Cetras. Lumber exporters, however, still must continue to remit all foreign exchange earned directly to the Central Bank.

3. Structural Policies

While Honduras allows many markets to function freely, the Government maintains price controls on a variety of basic commodities as part of its anti-inflation policy. Internal prices for imported goods are market determined but face stiff competition from smugglers seeking to avoid high import duties on finished goods. Prices for government services such as electricity, water, and sewerage are generally subsidized. Additionally, the government-controlled prices for sugar, cement, diesel and other products provide subsidies for inefficient domestic industries.

Parastatal enterprises dominate certain sectors of the Honduran economy, such as forestry. In 1985, the Government began a major privatization program with the passage of a law providing the legal basis for divestiture of public ownership in 59 largely debt-ridden companies acquired by CONADI, the state investment corporation. As of August 1989, a total of 11 state enterprises had been sold or leased to the private sector under this program, with an additional two privatized by the end of December 1989. In addition, the Government has partially divested its agricultural seed propagation company and has begun the process of selling off 20 more state-owned companies.

Honduras relies primarily on sales, consumption, and income taxes to generate fiscal revenue, and to a lesser extent on export, import, and property taxes. The income tax for Honduran residents is assessed on a progressive scale from 3 to 46 percent. Nonresidents are taxed on gross income according to category from 5 to 15 percent. Increasing tax revenues is difficult due to an inefficient collection system and widespread avoidance. Honduran law provides tax holidays for new investments. The Central American Agreement of Fiscal Incentives allows qualified companies tax credits from the reinvestment of profits in equipment and machinery that increases productive capacity. Except for nontraditional products which qualify for incentives under the export incentives law, a tax of one percent is applied on the FOB value of all exports. Bananas, coffee, beef, seafood, lumber, and minerals (which make up more than 80 percent of total Honduran exports) are taxed at higher rates. Imports are subject to published tariff duty rates and additional surcharges.

The Honduran Constitution contains provisions limiting foreign investment to areas of the economy which do not compete with established Honduran firms. It also forbids non-Hondurans from owning land within 40 kilometers of the borders and coastlines except in designated urban areas. Other laws stipulate a minimum market share for Honduran-owned enterprises. In practice, however, the Government generally welcomes foreign investment and treats it the same as investments by nationals. The Honduran Congress is considering a new foreign investment law that would reserve certain minimum market shares to Honduran-owned enterprises in certain industries but would permit foreign investment in tourism facilities located within 40 kilometers of the coastline.

In December 1988, the Honduran Congress passed a debt/equity conversion law to improve the investment climate while simultaneously reducing its foreign debt. Nine proposals representing $45.5 million were approved in September 1989. Several of the investments were by U.S. firms seeking to invest in new projects or expand current operations in Honduras. Some additional proposals were approved late in 1989 as final technical details are worked out on bond maturity and interest rates.

4. Debt Management Policies

At the end of 1988, Honduras' external debt amounted to approximately $3 billion, equivalent to about 68 percent of GDP. A large proportion of this debt is to international financial institutions for concessional loans. Honduras' debt service ratio has risen from 25 percent of exports in 1984 to almost 35 percent in 1989 because of the expiration of grace periods on loans to finance the massive El Cajon hydroelectric project. Because of Honduras' balance-of-payments difficulties in 1989, the Government has accumulated arrears in excess of $200 million to official creditors alone. Honduras' inability to clear most of its debt service obligations resulted in the World Bank placing Honduras on non-accrual status in April 1989 and the IMF considering in late September whether to declare Honduras ineligible.

Honduras has not made any principal payments on its debt to foreign commercial banks since 1982. After protracted negotiations between the Government and the Bank Advisory Committee, the talks ended in February 1989 when the Committee insisted on linking the capitalization of past due interest to Honduras' reaching agreement with the IMF on a standby

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A law creating export processing industrial zones (EPZs) was passed in 1987. The regulations for EPZs are similar to those of free zones. The first stage of construction on the first privately-owned EPZ (located near Puerto Cortes) is expected to be finished in early 1990. At that time, five buildings will have been constructed (which are already leased) and some 1,000 people will be employed, mostly by new foreign investors in the apparel business. By June 1990, an additional six buildings will be constructed and an additional 1,200 people employed in this EPZ. Other EPZs in the same general area are expected to begin operations in the future.

7. Protection of U.S. Intellectual Property

Honduras is a signatory of the general Inter-American Convention for Trademark and Commercial Protection, the Buenos Aires Convention on Literary and Artistic Copyrights, the Buenos Aires Convention for the Protection of Inventions, Patents, Designs, and Industrial Models, and the Stockholm Convention on World Intellectual Property Rights.

In order for patents and trademarks to be protected under Honduran law, they must be registered with the Ministry of Economy and Commerce. The duration of a patent ranges from 10 to 20 years depending on the importance of the invention and the desires of the applicant.

The Embassy has not received reports on infringement of trademarks, patents, or copyrights in Honduras, although there have been complaints concerning pirating of video tapes and television broadcasts. Hondutel, the state-owned telecommunications company that also regulates broadcasting, has drafted new regulations to provide some government control over the cable television industry.

8. Workers Rights *

a. The Right of Association

Labor unions, active for over three decades, exert considerable economic and political influence in Honduras. Workers are free to organize, bargain collectively, and strike. A number of private firms have instituted labor/management "solidarity" associations. Honduras' trade union movement maintains close ties with international trade union organizations and cooperates with the ILO. About 20 percent of all Honduran workers, including a substantial number of peasants and rural laborers, are represented by the country's three major labor organizations.

b. The Right to Organize and Bargain Collectively

The right to organize and to bargain collectively is protected by law and observed in practice. The prevalence of unionized labor in the workplace and its political influence act as a further guarantee against anti-union discrimination or pressures. Chapter V of the Honduran Constitution spells out in great detail the rights of workers, further delineated in legislation. These rights and guarantees are jealously guarded by the powerful union movement which does not hesitate to make use of the legal system to enforce observance.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in Honduras; such practices are prohibited by law and by the Constitution.

d. Minimum Age for Employment of Children

The Constitution and the Labor Code prohibit the employment of children under 16. Many children supplement the family income by working in small family farms and businesses or as street vendors. The Government does not enforce child labor laws in these situations.

e. Acceptable Conditions of Work

The Constitution and the Labor Code regulate minimum wages, working hours, vacations, and occupational safety. The daily minimum wage varies by occupation, ranging from $2.30 to $3.55 per day (at the official rate of exchange). This minimum wage was raised at the end of 1989.

The standard work day is eight hours; a standard week is 44 hours. The Labor Code provides for a paid vacation of 10 workdays after one year and 20 workdays after four years. The regulations, however, are frequently ignored. In 1989, an ILO technical expert investigated allegations by labor of improper use of pesticides in the banana industry. A U.S.-owned company, agreed to make the recommended changes in production, but small independent banana producers reportedly do not require the same safeguards in the use of pesticide.

f. Rights in Sectors with U.S. Investment

The largest U.S. investment in Honduras is in the banana industry. Workers in this sector, which is dominated by two U.S. transnational corporations, enjoy all the rights of workers in other sectors of the economy. The banana workers' unions, among the first established in the country, have succeeded in negotiating wage levels for their members that far exceed those of comparably skilled workers in other sectors. In October 1989, the largest banana union, that of Tela Railroad Company, went on strike for 13 days. This strike was generally peaceful and workers agreed to return to work with several contested issues still unresolved.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		92
Food & Kindred Products	71	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	20	
Wholesale Trade		21
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Honduras country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

JAMAICA

Key Economic Indicators

(Millions of Jamaican dollars (J$) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production and Employment			
Real GDP (1980 base)	5042.2	5073.4	5254.4
Real GDP growth rate	5.2	0.6	3.0
GDP by sector			
Agriculture/forestry/fishing	424.5	405.8	398.2
Mining and quarrying	424.9	404.9	497.6
Manufacturing	886.8	879.1	885.4
Construction/installation	346.8	395.5	442.6
Distributive trade	1098.1	1116.8	1128.7
Transport/storage/communica's	319.5	324.9	337.4
Real estate/business services	467.4	477.5	479.1
Government services	624.5	627.7	632.0
Real GDP per capita (J$)	2136.5	2149.7	2198.5
Size of labor force (000's)	1069.7	1078.4	1090.0
Unemployment rate (avg pct)	21.0	18.7	n/a
Money and Prices			
Money supply (M1) (J$ mils)	1874.8	2908.8	2252.5
Commc'l interest rate (avg)	25.2	24.9	28.0
Savings rate	15.0	13.0	18.0
Investment rate (as pct GDP) 1/	21.8	24.9	24.0
Consumer price index (avg pct chg)	6.7	8.3	15.0
Wholesale price index	n/a	n/a	n/a
Exchange rate (J$/$1.00)	5.5	5.5	6.50
Balance of Payment and Trade (mils US $)			
Total exports FOB	708.8	831.6	948.3
Exports to U.S.	421.0	469.9	534.7
Total imports CIF	1234.3	1434.6	1622.5
Imports from U.S.	588.0	741.3	842.0
Aid from U.S. 2/	73.1	124.4	74.6
Aid from other countries	183.4	242.9	n/a.
External public debt (bils $)	4.0	4.0	4.3
Annual debt service paid (bils $)	725.6	642.1	717.4
Gold & forex reserves 3/	-479.2	-313.3	-195.6
Balance of payments (mils $) 4/			
Merchandise	-525.5	-596.1	-673.8
Exports FOB	708.8	831.6	949.3
Imports CIF	1234.3	1427.7	1623.1
Services (net)	205.5	352.7	306.3
Foreign travel	551.2	468.5	518.8
Investment income	-401.8	-467.7	-312.3
Other	4.5	351.9	99.8
Goods and services	-320	-243.4	-367.5
Transfers (net)	171.6	241.6	255.0
Current account balance	-148.4	-1.8	-112.5
Net capital movements	451.6	145.1	249.5
Chg in reserves (incr = minus)	-303.2	-143.3	-137.0

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1/ gross fixed capital formation
2/ U.S. budgetary years. Includes DA, ESF, and PL-480
3/ includes Bank of Jamaica and central government reserves
4/ exchange rates: 1987 - J$ 5.5/$1.00; 1988 - J$ 5.5/$1.00; 1989 - J$ 6.5/$1.00.

1. General Policy Framework

Jamaica has a relatively open, private sector economy in which tourism and mining contribute the bulk of foreign exchange earnings, but agriculture remains the largest source of employment. The Government's role in the economy has been reduced in recent years but imports of certain key commodities are still under its control. Since 1984, tourism has been the country's leading foreign exchange earning industry. In 1988, gross foreign exchange earnings from tourism amounted to $525 million, representing one-third of exports of goods and services. The bauxite/alumina industry is the leading merchandise export industry, accounting for almost half of merchandise exports, providing 5 to 6 percent of government revenue and generating about 5 percent of GDP. The manufacturing sector contributes 16 percent of GDP and accounts for 15 percent of employment. Major subsectors include garments, food processing, beverages, and tobacco.

Jamaica is favored with a good climate and fertile soil conducive to a wide variety of agricultural products. However, access to and quantities of tillable land are limited by the island's mountainous terrain. The agricultural sector contributes 8 percent of GDP and accounts for over a third of total employment. Traditional agricultural exports include sugar, bananas, coffee, and cocoa. Jamaica is periodically subject to hurricanes, particularly during July to November. The Jamaican economy was severely affected by Hurricane Gilbert in late 1988. However, timely support and assistance from donor countries contributed to a rapid recovery in most sectors of the economy.

Economic Policy Framework: A new Jamaican Government under Prime Minister Michael Manley took office in mid-February 1989. The Manley Administration is emphasizing market-oriented policies to foster and sustain economic growth. Policy adjustments have been made in recent years in monetary and fiscal policies to reduce public sector deficit, stabilize the Jamaican dollar and to moderate inflation. The Manley Government is in general seeking to continue these policies. It is also seeking to return productive assets to the private sector and has made progress by divesting the majority of government-owned hotels to both local and foreign investors. As a part of an ongoing program of tax reform started under the previous administration, the Government is proposing to introduce in 1990 a value-added type general consumption tax to replace the current array of consumption duties, excise taxes, and other indirect taxes.

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Fiscal Policy: The central fiscal policy objective during the Seaga Administration was reduction of the overall public deficit through improvement in tax reform and administration, divestment of public entities, civil service retrenchment, and moderate increases in expenditure. Due largely to economic shocks generated by the Hurricane, the 1988/89 budget targets were not attained. The central government deficit grew to $519 million from an average of $210 million over the previous two years. The deficit was funded by foreign financing and local registered stock (long-term government obligations). Loans from multilateral agencies and bilateral donors (IBRD, IADB, CDB, CIDA, the EEC, Italy, Japan, the United States, etc.), rescheduling of bilateral lenders, and oil credits from Mexico and Venezuela accounted for most of the financing.

Since taking office in February 1989, the Manley Administration has pursued a tight budget policy. Total government expenditure for fiscal year 1989/90 is estimated at $1.6 billion. Recurrent and capital expenditures are proposed at $1 billion and $640.4 million respectively. The largest budget allocation (41 percent) is for debt servicing. Large increases have occurred in funding for the security services (23 percent) and for social and community services (14 percent).

Monetary Policy: Following the September 1988 hurricane, monetary policy was expansionary to support the reconstruction effort. Large amounts of reinsurance inflows also boosted the volume of money supply. Since July 1989, the Manley Government has adopted a considerably more restrictive monetary policy to stabilize the depreciation of the Jamaican dollar, arrest the deterioration in the balance-of-payments, and to moderate inflation. The main tools of monetary policy have been open market operations through the sale of Bank of Jamaica's certificates of deposit and Treasury bills, adjustment of the liquid asset ratio, regulation of minimum interest rate on savings accounts, and credit ceilings. The Bank has suspended its bankers' rediscounting facility and reduced the access to liquidity support facility. The savings interest rate has been raised from 13 percent to 18 percent as a measure to encourage savings, raise lending rates, and thereby reduce pressure on the Jamaican dollar.

2. Exchange Rate Policies

Between 1984 and October 1989, the exchange rate was determined by a twice weekly foreign exchange auction conducted by the Bank of Jamaica. The clearing rate--and thus the official exchange rate--was determined by the price of the lowest bid exhausting the available supply of foreign exchange. From 1985 to mid-1989, the Government was able to stabilize the Jamaican dollar at around J$ 5.50/$1.00. However, due to a widening merchandise trade gap, the drain of debt repayments, speculation, and early commercial settlements, the Jamaican dollar began depreciating against its U.S. counterpart in July 1989. By October 25, the rate had reached J$ 6.19/$1.00. The Government announced on

October 31, 1989 that it was shifting to a fixed exchange rate of J$ 6.50/$1.00. The auction system was suspended. The announced goal was to establish stability in the exchange rate at a credible level during a period of temporary imbalance in supply and demand for foreign exchange. This action was accompanied or preceded by various monetary and fiscal measures to reduce demand for imports and foreign exchange.

The Government also announced that, as in the past, applications for foreign exchange transfers of more than us $50,000 will go directly to the Bank of Jamaica while applications for smaller amounts will be channelled through commercial banks which act as agents for the Bank in purchasing foreign exchange. Applications would be filled on a first come, first serve basis and the Bank would not set sector priorities or other direct import controls.

Although some changes in foreign exchange control administration may ensue, the following controls were still in effect as of the end of 1989:

- residents of Jamaica travelling abroad have access to an annual vacation allowance of $300 per person;

- effective October 17, 1989, residents travelling abroad for business or participation in conferences or sporting events are allowed a maximum of $200 per day per person for a maximum period of five days. The number of business trips per entity may not exceed one per month;

- residents may remit a maximum of $100 per annum per person as cash gifts;

- residents may access a maximum of $10,000 for medical treatment abroad from commercial banks; for amounts exceeding $10,000, application must be made to the Bank;

- work permit holders are entitled to remit a maximum 30 percent of their net salary abroad annually;

- insurance companies are allowed to remit foreign exchange to overseas creditors and firms with which they have contracted for reinsurance; and

- remittances of recurrent transactions such as interest, loans, management and technical contracts, royalties, dividends, profits, charter hire, etc., are permitted if previously approved and registered with the Bank.

3. Structural Policies

Pricing Policies: Jamaica is in general a market-oriented economy where price is determined by demand and supply. However, the Government imposes price controls on a limited number of basic products in order to protect the low income consumers. Items under price control fall under three categories:

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(1) includes items for which specific approval is required from the Government for a price increase. These items include animal feeds, baking flour, bread, canned sardines, canned herrings, cooking oil, condensed milk, cornmeal, counter flour, gasoline, kerosene, oil, saltfish, sugar, whole chicken, and chicken legs and thighs;

(2) LPG cooking gas and steel reinforcing bars. For items in this category, prices can be increased with notification to the Prices Commission if the Commission offers no subsequent objection;

(3) pharmaceuticals, motor vehicles and parts, hardware items, cement, tires, and fertilizer. The markup for items in this category is controlled.

The prices of about nine of the 16 items in Category 1 were increased by the Manley Administration in April 1989. Increases ranged between 9 and 73 percent. Because the Jamaica Commodity Trading Company (JCTC), a government purchasing agency entity, is the sole importer of many price controlled items, U.S. export of these items depends on the Government's decisions on sourcing and offer prices. There are no price controls on agricultural produce for domestic consumption. Farmgate prices for domestic crops are generally determined by the market forces. In the case of traditional export crops, the Coffee Board, the Cocoa Board, the Citrus Growers' Association, the Sugar Industry Authority, and the Banana Exporting Company (all government-run except for citrus and bananas) annually decide on the farmgate price. This provides a farmer with a minimum price which he receives as a first payment for his crop at the beginning of the crop year. Later, profits made by the commodity boards and associations are calculated and distributed to the farmers as final payment.

Tax Policies: Tax receipts account for $1,107 million or about 80 percent of total government revenue. Major taxes which influence the economy are income tax ($381 million), consumption duty ($214 million), stamp duties ($113 million), and customs duty ($97 million). In order to simplify the tax system, stimulate investment, and increase competitiveness, the Government introduced a four-year tariff reform program 1987/88-1990/91 to reduce import duties to a range of between 5 to 30 percent.

In 1988, maximum aggregate duties (customs and stamp duties) on all items were reduced to 60 percent. Duties on raw material remained at 10 percent. During the latter part of 1988, the maximum aggregate duties on capital goods were reduced to 20 percent to facilitate replacement and modernization of equipment damaged by Hurricane Gilbert. However, for cases in which the customs duty alone exceeds 20 percent, the aggregate rate is the applicable customs duty according to CARICOM's common external tariff (CET).

The Government offers investment incentives to approved foreign investors such as exemptions from income tax for a certain period of time as well as duty free imports. Investment incentives occur under several laws including the Export Industry Encouragement Act, the Industrial Incentives Act, the Motion Picture Industry Incentives Act, the Hotel Incentives Act, and the Factory Construction Act. For free zone operations, tax incentives include customs duty exemption, and income tax holiday in perpetuity. The Government intends to introduce a VAT-style general consumption tax in 1990 to replace the existing array of consumption duties, excises, and other indirect taxes. Over the last several years, Jamaican tax policy has been revised to encourage economic growth and activity through a more open economy. This effort and, more particularly, tariff policy reforms have been beneficial for U.S. exports, which represented 48 percent of total Jamaican imports in 1988.

Regulatory Policies: State control of the imports of motor vehicles, specified pharmaceuticals, and certain basic foodstuffs limits free trade in these commodities. Stamp duties on some agricultural products are kept as high as 95 percent in order to discourage imports and protect the domestic producers. There appear to be no laws with respect to product standards which affect U.S. exports.

4. Debt Management Policies

At the end of 1988, Jamaica's total external debt stood at $4 billion. Of this, 46 percent was official bilateral debt (the U.S. was the single largest creditor), 39 percent was multilateral, and 15 percent was classified as commercial and other debt. Because multilateral loans cannot be rescheduled under present arrangements, Jamaica has limited debt management options. The Bank of Jamaica estimates the debt service ratio in 1989 will amount to approximately 41 percent of exports of goods and services inclusive of rescheduling. The FY1989/90 budget allocates about 41 percent of central government expenditure to debt servicing. This burden significantly limits the Government's ability to finance vital improvements in social services and limits economic growth.

The Government of Jamaica continues to receive support from the bilateral donors and commercial banks on debt issues. In October 1988 the Paris Club provided favorable terms of rescheduling for 100 percent of principal and interest on bilateral repayments due between June 1988 and November 1989. Payments were rescheduled over a ten-year repayment period and with five years' grace. In April 1987, multi-year rescheduling was completed with the commercial banks and the non-OECD bilateral countries.

In September 1988, Jamaica and the IMF signed a 14-month SDR 82 million standby agreement, which was extended to 20 months in February 1989. Negotiations were reopened with the IMF in October 1989 as balance-of-payments problems caused difficulties in meeting the targets in the IMF agreement.

JAMAICA

In July 1987, the Government of Jamaica launched a debt/equity swap program with the objective of reducing $200 million of Jamaica's external commercial bank loan in over five years. Approvals have been granted for conversions amounting to more than $115 million, and $16.5 million has been converted to support projects in export agriculture, export manufacturing, and tourism.

5. Significant Barriers to U.S. Exports Investment

Import Licenses: The current system requires licenses for about 100 specific items, but the Government has revised and reduced the list in the last part of 1989. Items that require import licenses include vegetables, fruits, certain chemicals, vehicles and parts, and arms and ammunition. There are no specific quotas for most of these. For most items, import licenses are easily obtained and do not present a constraint to U.S. exports. Licensing is used for national security and to protect small farmers' production of certain domestic crops. However, as discussed in Section 3, the JCTC highly influences prices and trading in some basic food items, motor vehicles and pharmaceuticals. The general absence of structural barriers to U.S. products is demonstrated by the fact that the U.S. enjoyed a $385 million trade surplus with Jamaica in 1988.

Services Barriers: Investment in certain service-oriented sectors is generally reserved for Jamaican investors, although foreign investors might receive approval under special circumstances. These areas include internal distributive trade; restaurants and catering; internal transport; legal, auditing, and accounting services; architecture; structural mechanics; electrical and civil engineering and contracting (except with joint ventures with foreign firms); entertainment; advertising and public relations; automobile and other repair services; and personal services such as hairdressing and dry cleaning. However, foreign firms have succeeded in establishing subsidiaries in some of these areas including accounting and auditing, restaurants, engineering, and publishing.

Standards, Testing, Labeling and Certification: No issues in these areas appear to dampen U.S. exports or investment.

Investment: The Government is receptive to foreign investment, although such investment must be registered with and approved by the Bank of Jamaica. Projects requiring Bank approval are required to maintain a minimum cash investment of $40,000. New policies to lower the minimum cash investment and incentives are presently being reviewed by the Government. Since 1980, there has been no case of forced disinvestment in Jamaica.

Government Procurement Practices: Jamaica has a seven-year countertrade agreement with the Soviet Union ending in 1990. Under the agreement, Jamaica exports one million metric tons of wet bauxite annually to the U.S.S.R. in exchange for purchases of 20 percent of the contract value in Soviet machinery and equipment. Discussions between the Government and the U.S.S.R. have focused on prospects for increasing countertrade for products other than motor vehicles in exchange for bauxite. U.S. exports to Jamaica are not greatly affected by this agreement as the overall amount of imports from the U.S.S.R. is small ($6 million). There is no "buy Jamaican" law; the Jamaican Manufacturers' Association has plans to conduct a "buy Jamaican" campaign to motivate Jamaican consumers to buy locally in order to save foreign exchange. However, considering the strong pro-foreign goods bias which exists in Jamaica, the campaign is not likely to have a great impact on U.S. exports.

Customs Procedures: Although sometimes criticized by interested parties for its slow pace, Jamaica's customs administration does not appear to constrain U.S. exports or inputs required by U.S. investors.

6. Export Subsidies Policies

The Government suspended a 7.5 percent export rebate effective December 1989. Instead, the Government intends to reimburse exporters for all indirect taxes paid on production inputs. Under the Export Industry Encouragement Act, approved export manufacturers are granted duty free status on imported materials for an incentive period. Other export incentives include access to preferential financing from the National Export-Import Bank through the Export Development Fund, lines of credit, and export credit insurance. Jamaica is not a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Jamaica is a member of the World Intellectual Property Organization and respects intellectual property and the right of compensation of property.

The Government has shown strong interest in recent developments in intellectual property rights protection in the context of the GATT Uruguay Round and prospective revision of the Paris Convention for the Protection of Industrial Property.

Patents and Trademarks: Patent laws in Jamaica are based on very old English laws. The Ministry of Industry and Commerce is presently studying proposals for updating this legislation. There are no apparent patent or trademark issues detrimental to U.S. firms or individuals.

Copyrights: Jamaica presently uses a 1911 Copyright Act of the United Kingdom, supplemented by a local Act of 1913. Due to widespread piracy of audio and video recordings, new copyright legislation was drafted and tabled for Parliamentary approval during the previous administration. The new Government is currently reviewing this draft legislation for possible implementation in 1990.

JAMAICA

8. Worker Rights *

a. The Right of Association

The Jamaican Constitution guarantees the rights of assembly and association, freedom of speech, and protection of private property. These rights are widely observed.

b. Right to Organize and Bargain Collectively

Article 23 of the Jamaican Constitution guarantees the right to form, join, and belong to trade unions. This right is freely exercised. Collective bargaining is widely used as a means of settling disputes. The Labor Relations and Industrial Disputes Act codifies regulations on worker rights. About 25 percent of the work force is unionized, and unions play an important economic and political role in Jamaican affairs. In the Kingston Free Zone only two of the 18 factories in the free zone are unionized. However, Jamaica's second largest union, the National Workers' Union, has indicated its intent to organize workers in the free zones.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not practiced or permitted and Jamaica is a party to the relevant ILO Convention.

d. Minimum Age for Employment of Children

The Jamaican Juvenile Act prohibits child labor, defined by law as the employment of children under 12. While children are observed peddling goods and services, widespread child labor is not practiced.

e. Acceptable Conditions of Work

A 40-hour week with 8-hour days is standard. Work outside normal hours earns time and a half (double time on rest days and holidays.) Jamaican law requires all factories to be registered, inspected, and approved by the Ministry of Labor. Inspections are limited by Ministry of Labor budget constraints and a narrow legal definition of "factory."

f. Rights in Sectors with U.S. Investment

U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, manufacturing (mainly garments for export), banking and financing, tourism, data processing, and the distribution of sewing, copying, and office machines. Worker rights are respected in these sectors, and most of the firms in the sectors with U.S. investment are unionized. There have been no reports of firms with U.S. participation abridging standards of acceptable working conditions. Wages in U.S.-owned companies generally exceed the industry average.

JAMAICA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		70
Food & Kindred Products	15	
Chemicals & Allied Products	44	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	11	
Wholesale Trade		22
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Jamaica country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

MEXICO

Key Economic Indicators

	1987	1988	1989 (est)
Income, Production and Employment			
GDP (current $ bils)	141.2	176.7	200.7
GDP per capita (current $)	1,739	2,134	2,375
Real GDP growth rate (pct over previous year)	1.5	1.1	3.0
by sector (pct)			
Agriculture/forestry/fishing	8.6	8.4	n/a
Mining	3.8	3.8	n/a
Manufacturing	21.2	21.4	n/a
Construction	5.1	4.8	n/a
Commerce/restaurants/hotels	25.7	25.7	n/a
Transport/storage/communic	6.3	6.4	n/a
Fin svcs/insur/real estate	10.8	11.0	n/a
Communal social/pers svcs	18.6	18.5	n/a
Size of labor force (millions)	27.0	27.7	28.4
Employment (millions)	22.1	22.7	23.3
Unemployment rate (pct)	18.0	18.0	18.0
Money and Prices			
Money supply (M1 growth rate)	136.8	58.1	20.0
Commercial interest rates (pct)	160.2	67.6	45.0
Savings rate	36.5	28.1	28.1
Investment rate	1q.1	16.9	17.5
Consumer price index (pct) (Dec - Dec growth rate)	159.2	51.7	18.0
Wholesale price index (pct) (yr-end growth rate)	166.7	42.6	15.0
Exchange rate			
Official	1366.7	2250	2449
Parallel	1405.8	2290	2442
Balance of Payments and Trade (bils $)			
Total exports FOB	20.7	20.7	22.9
Exports to U.S. 1/	13.3	11.3	15.7
Total imports CIF	12.2	18.9	22.3
Imports from U.S. 1/	7.9	11.4	15.1
Aid from U.S.	n/a	n/a	n/a
Aid from other countries	n/a	n/a	n/a
External public debt	81.4	81.0	76.0
Annual debt service payments	11.4	13.1	14.4
Gold and forex reserves	13.7	6.6	7.0
Balance of payments	3.4	(6.7)	0.5

1/ U.S. and Mexican data on bilateral trade differ substantially due to differences in the treatment of in-bond trade. Mexican data, shown above, reflect only value added.

MEXICO

1. General Policy Framework

Economic policy over the past two years has been determined by the Economic Solidarity Pact (PSE), implemented in December 1987, and its successor, the Pact for Stability and Economic Growth (PECE). The Pacts have combined traditional austerity measures (tight fiscal and monetary policies), heterodox economic measures (price, wage and exchange rate controls), and rapid trade liberalization. Their intent was to reduce inflation and restore economic confidence while avoiding a deep recession.

Prices of a number of basic goods and services (both publicly and privately produced) were frozen under the original Pact. Labor unions and producers were discouraged from raising wages and prices. The controlled peso first was devalued sharply and then frozen from March to December 1988. Trade liberalization was accelerated, reducing the maximum tariff to 20 percent and eliminating most import permits. The Government reduced the fiscal deficit by increasing revenue and slashing expenditures. It slowed growth of the money supply by limiting monetary creation and freezing the banks' ability to lend. It also accelerated the process of privatization of parastatals to increase productive efficiency and to reduce subsidies.

In 1989, coinciding with the accession of the new Salinas Administration, the PSE was extended as the Pact for Stability and Economic Growth (PECE). The exchange rate policy was relaxed, replacing the exchange rate freeze with a gradual devaluation against the dollar of one peso a day. Most controlled prices remained frozen, although some were adjusted, and the minimum import tariff was raised from zero to 10 percent. The minimum wage was increased eight percent (and later by six percent) as the Government pledged continuation of tight fiscal policies.

In June 1989 the PECE was extended to March 31, 1990 and in December it was further extended through July 1990. Under this extension of the Pact, exchange rate policy remains unchanged, as do price restrictions. However, the new version of the PECE allows for price adjustments to prevent shortages, and a number of private sector prices have been adjusted modestly. Producer guarantee prices for "basic agricultural products" were raised in the latter half of 1989. In the case of corn and soybeans, this led to increased food subsidies, given little or no corresponding increase in consumer prices for these commodities.

Under the Pact, inflation has moderated and the public sector financial deficit has fallen. The economy grew 2.4 percent in the first half of 1989, compared to 1.1 percent for 1988, and was expected to have grown 3 percent over 1989.

The public sector financial deficit has fallen sharply, a reflection of the success of the Government's efforts to increase revenues and cut expenditures. In 1989 public sector income increased in real terms because of rigorous efforts to improve tax collection. Public sector expenditures fell over 15 percent in real terms, but remain higher than income. Interest payments make up over 40 percent of all expenditures, mostly for internal debt--while the internal debt is smaller than external debt, domestic interest rates are much higher than those prevailing internationally. The public sector deficit is financed domestically through short and medium term debt. Approximately 40 percent of the internal debt is held by the private sector. The balance is held by commercial banks and the Central Bank.

Since 1987 the Government has moved from heavy reliance on required lending by the banking system to greater borrowing from the Central Bank. The increase in the Central Bank's share of domestic borrowing reflects large purchases of Treasury securities by the Bank, which put upward pressures on the money supply (M3 and M4) as the Bank issued pesos to purchase the securities. Although this form of deficit financing is less distorting to the financial sector, it creates inflationary pressures.

2. Exchange Rate Policies

Mexico has three exchange rates. The controlled exchange rate applies to most exports and imports, debt payments, and in-bond industry receipts. The official free rate is the rate commercial banks use to buy and sell dollars. The private free rate is the rate offered at the exchange houses. The difference between the controlled and free rates has remained at or below 1.5 percent throughout 1989. The peso has been devalued at about one peso per day against the dollar since the beginning of 1989.

3. Structural Policies

In 1989, the Government of Mexico continued its efforts to restructure the Mexican economy, opening it further to foreign competition and redirecting production away from an overweening dependence on petroleum product exports for earning foreign exchange. In addition, the Government has moved to divest itself of most parastatal enterprises, both to accelerate the privatization of the economy and to reduce the drag of subsidies on fiscal resources (as noted above, subsidy levels in the food sector have nonetheless been increasing). As a result of tariff reform, Mexico's weighted average import tariff is now around 11 percent, only slightly higher than that of the United States' principal trading partner, Canada. Mexican imports have continued to grow more rapidly than exports in 1989, which likely will result in Mexico's trade surplus with the united states dropping even further this year, if not actually resulting in a deficit position (when in-bond trade is considered).

Other structural reforms undertaken by the Mexican Government in 1989 have included the privatization of the national air carrier, Mexicana, and the government-owned telephone company, TELMEX, as well as encouragement of competition in the provision of value-added telecommunications services such as cellular telephone systems. On the deregulation front, the domestic trucking industry has been almost completely liberalized and a variety of regulations stipulating container and packaging requirements for manufacturers have been eliminated. In May 1989, the Government decided not to seek a change in its foreign investment statute, but rather to revise existing rules. The new rules dramatically change the environment for foreign investment, by opening 60 percent of the Mexican economy to 100 percent foreign investment up to $100 million. These rules allow, in certain cases, automatic approval of investment projects, and are designed to otherwise markedly speed up the approval process. In a similar vein, the reclassification of a variety of petrochemical products as secondary petrochemicals by the Government will mean that foreign participation in processing activities hitherto restricted to the state are now permitted.

4. Debt Management Policies

Over the past several years the Mexican Government has undertaken two major debt restructurings which eased significantly Mexico's debt servicing burden. The Mexican authorities have taken a highly responsible attitude in managing their external debt and have avoided confrontational actions with their creditors. Early in 1988 Mexico was able to reduce its external debt by over $1 billion by issuing discounted new bonds backed by U.S. Treasury zero coupon bonds in exchange for previously issued public sector debt.

Furthermore, the Government encouraged the private sector to pay off its external debts and these fell by an estimated $2 billion during the first half of 1988. The Mexican authorities have long believed that they must take further actions to reduce Mexico's external debt servicing outlays in order to help promote economic growth and ensure that the country can meet its import needs. In his inaugural address in December, 1988, President Salinas outlined four goals in handling Mexico's external debt. These were: achievement of a reduction in net transfers abroad; a reduction in the level of the debt; a reduction of the debt as a proportion of GDP; and negotiation of a long-term (multi-year) agreement.

Acting on these principles, the Salinas Administration undertook concerted negotiations with its creditors in 1989 to attack the debt problem. Agreements achieved with Mexico's commercial bank creditors, the IMF, World Bank and the Paris Club should reduce substantially the level of external debt service payments. Mexico's overall external debt fell from $ 100.4 billion to $95.8 billion during the January-June, 1989 period.

MEXICO

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: As part of its policy of rationalizing its system of protection for domestic producers and in accordance with its 1986 GATT Protocol of Accession, Mexico agreed to eliminate eventually its previously universal regime of import licensing requirements. The Mexico Government has cut sharply its licensing requirements, but nonetheless, has maintained import permits for approximately 260 primarily agricultural items without having justified these before the GATT, as required. On December 29, 1989, the Mexican Administration announced an extension of its remaining import licensing requirements until the end of 1990. Although constituting a small percentage of all products traded, the agricultural, pharmaceutical and electronic goods to which the import permit requirements pertain account for roughly 23 percent of U.S. exports to Mexico. The elimination and subsequent re-imposition of import license requirements, particularly for perishable agricultural exports, continues to cause substantial disruptions to trade.

Services Barriers

Insurance: Foreign ownership of Mexican insurance companies is limited to 15 percent by law. U.S. access to the Mexican reinsurance market is also limited by the requirement that Mexican insurers place at least 50 percent of their reinsurance business in the local market. Premium volume exceeds $1 billion annually.

Telecommunications: Only wholly Mexican-owned companies were permitted to offer enhanced or value-added telephone services until recently. In the fall of 1989, the Government announced that foreign firms may participate in companies which provide such services with equity positions of up to 49 percent.

Banking: With the exception of two private banks (one, Citibank, is U.S.-owned), the commercial banking system was nationalized in 1982. The many foreign banks with representative offices in Mexico are prohibited from engaging in commercial banking activities.

Motor Carriers: U.S. motor carriers are prohibited from operating in Mexico. Only two U.S. bus lines operate multiday trips in Mexico. Trucking authority is limited to the immediate border zone, but such access is not uniformly honored by Mexican officials. The restriction on trucking principally impedes U.S. transport of components to U.S.-owned in-bond industry plants in Mexico. A Mexican tractor must haul all shipments bound for interior points, or merchandise must be transferred to Mexican tractor-trailer rigs, which contributes to additional transit time, costs and pilferage.

Standards, Testing, Labeling and Certification: Mexico has not clearly defined procedures regarding the importation of many agricultural products, particularly processed foods. The Government of Mexico has been unwilling to specify which foreign documents or certifications are acceptable to meet its requirements, causing confusion, substantial legal and research costs, and delays of up to eighteen months. When those standards that are explicitly stated have been changed, the Mexican authorities have not always complied with their obligations to inform the U.S. Government in a timely fashion.

Investment Barriers: A national foreign investment commission, chaired by the ministry of commerce and industrial development, regulates foreign investment in Mexico. The country's laws reserve certain sectors to the state (such as oil and gas extraction, banking services, and the generation and transmission of electrical power) and a considerably wider range of activities to Mexican nationals (for example, forestry exploitation, domestic air and maritime transportation, and gas distribution). Since 1982, the Government has taken a generally favorable attitude towards foreign investment, which approach accelerated in the later years of the de la Madrid Administration and which has continued with the Salinas Government.

Reflecting this increasingly favorable attitude toward foreign investment, the Government issued in May 1989 a series of regulations governing foreign investment which liberalized the rules of the game in several key areas. Automatic investment approval will henceforth be granted foreign majority-owned projects in accordance with certain investment amount, foreign exchange balances and geographic location, criteria. The regulations specify those areas where foreign majority ownership is now permitted, but leave standing those sectors in which state or Mexican national ownership is required by law. However, "temporary" foreign participation in investment projects in sectors limited to Mexicans has been made possible through the development of 20-year trusts to be held by Mexican partners.

Government Procurement Practices: In a departure from past practice, the Government of Mexico eliminated its previous rule that parastatal enterprises give preference to national suppliers; however, Mexican Government agencies continue to favor national firms whenever possible.

6. Export Subsidies Policies

In 1986, Mexico signed a bilateral understanding on export subsidies with the United States. The Mexican Government has informed the United States Government that it maintains no export subsidy program and is in full compliance with its obligations under the subsidies agreement. In the context of recent bilateral steel negotiations, the United States questioned whether loans provided to the Mexican steel sector through NAFINSA, the state-owned development bank, constitute financial subsidies for Mexican steel exports.

MEXICO

7. Protection of U.S. Intellectual Property

Mexico is a party to the Berne and Universal Copyright Conventions as well as to the Paris Industrial Property Protection and Brussels Satellite Conventions.

The United States perceives shortcomings in Mexico's intellectual property rights practices. In May 1989, Mexico was designated along with seven other nations as a "priority watch list" country by the United States pursuant to the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act. The Mexican Government accepts the need for intellectual property protection as a basis for an adequate investment, business and economic development environment. Although the Government believes that Mexico's intellectual property rights regime is adequate, the Mexican authorities have publicly stated that they plan to revise certain aspects of its patent and trademarks law in the near future.

In 1986, product patent protection was extended to pharmaceuticals, chemicals, animal foods and beverages, but only with an effective date 10 years hence. All patent protection was extended from 10 to 14 years. Protection was not granted to a number of products of interest to the United States, including plant and animal species, biological processes to obtain them, alloys, foods and beverages for human consumption, and new applications for known inventions.

Under Mexican law, trademarks are subject to compulsory licensing. Mexican trademark law requires trademark use within three years after registration. However, there is no provision for justified non-use as required by the Paris Convention. Trademarks, granted for five year periods, are renewable.

Although Mexico's copyright law is relatively strong and there are numerous examples of enforcement on behalf of rights holders, some U.S. producers have experienced infringement problems. The U.S. motion picture industry has complained that a significant volume of U.S. network programming is being retransmitted by Mexican cable systems without compensation. The U.S. sound recording industry has complained of a large volume of parallel importation into the United States of Mexican recordings.

As a general rule, new technologies have not been introduced to Mexico due to its lack of adequate intellectual property protection.

Some companies (including agricultural chemical and pharmaceutical producers) allege they refrain from introducing new products into Mexico because of its lack of product patent protection.

MEXICO

8. Worker Rights *

a. The Right of Association

The Constitution guarantees workers and employers the right to form unions and professional associations. Unions must register with the labor secretariat, though requirements are not onerous. Mexico enjoys a well-developed trade union movement with close to 35 percent of a work force of 26 million unionized. The right of organization is respected in the in-bond (maquila) industry, although workers in some 80-90 percent of the firms do not belong to unions. Generally speaking, nonunion in-bond firms provide benefits and working conditions that match or exceed those established by union contract.

b. The Right to Organize and Bargain Collectively

Both the right to organize and bargain collectively are guaranteed by Mexican labor law and honored in practice. Collective bargaining is common in industry and commerce, less so in the public sector. Collective bargaining takes place in the in-bond industry where there are unions representing worker interests.

c. Prohibition of Forced or Compulsory Labor

Mexico is a signatory to ILO Conventions regarding the prohibition of forced or compulsory labor, which practices are also prohibited by Mexican law.

d. Minimum Age of Employment of Children

Mexican law sets the minimum age of employment for children at 14, with those between 14 and 16 permitted to work a maximum of 6 hours daily in nonhazardous areas. Child labor laws are strictly enforced in large- and medium-sized manufacturing and commercial establishments, less so in smaller shops and factories, and even less still among street vendors or others engaged in the underground economy.

e. Acceptable Conditions of Work

Mexican labor legislation provides substantial protection for workers with respect to occupational safety and health, although, compliance with the law varies in accordance with the size and formal organization of the establishment. Lack of sufficient trained inspectors to enforce safety and health regulations adds to the problem. Although the law provides for a maximum work week of 48 hours, Mexicans who hold more than one job generally exceed the norm. Minimum wage legislation is often revised.

MEXICO

f. Rights in Sectors with U.S. Investment

U.S. investment is found in the food, chemicals, primary and fabricated metals, machinery, transportation equipment, other manufacturing, and wholesale trade sectors. In all of these sectors, the right of association and to organize and bargain collectively, a prohibition on the use of forced or compulsory labor, a minimum work age, and acceptable working conditions exist and are respected.

Some 80-90 percent of Mexican workers at in-bond plants have not been unionized, and there have been accusations that unionization has been discouraged and other worker rights, such as minimum age restrictions, violated. Such accusations have not, by and large, held up to scrutiny, with the exception of smaller plants (10 - 100 workers) which are more likely to be locally- rather than foreign-owned.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category		Amount
Petroleum		60
Total Manufacturing		4,386
Food & Kindred Products	257	
Chemicals & Allied Products	1,197	
Metals, Primary & Fabricated	234	
Machinery, except Electrical	92	
Electric & Electronic Equipment	382	
Transportation Equipment	1,182	
Other Manufacturing	1,243	
Wholesale Trade		376
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		4,812

Source: U.S. Department of Commerce, Survey of Current Business, August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Mexico country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

NICARAGUA

Key Economic Indicators

(Millions of Nicaraguan cordobas (NC) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, and Employment			
Real GDP (1980 C)	20,308	n/a	n/a
Real GDP growth rate (pct)	-5.0	-8.0	n/a
GDP by sector			
Manufacturing	26.3	21.1	n/a
Agriculture	22.7	23.6	n/a
Government	11.5	12.9	n/a
Real per capita GDP (1980 C)	5,692	n/a	n/a
Size of labor force (mils)	1.12	1.17	n/a
Unemployment rate (pct)	24+	27+	n/a
Money and Prices			
Money supply (Ml)	380,388.2	n/a	n/a
Comm'l interest rates (pct)	15 - 45	n/a	n/a
Savings rate	n/a	n/a	n/a
Investment rate	n/a	n/a	n/a
Consumer price index	1800	14,316	15,756
GDP deflator	468	13,243	n/a
Exchange rate (NC/$1.00) (yr-end)			
Official	70	n/a	36,300 1/
Parallel	15,000	4,750 1/	46,200 1/
Balance of Payments and Trade (mils $)			
Total Exports	251.0	235.7	n/a
Exports to U.S.	0	0	0
Total Imports	743.2	718.3	n/a
Imports from U.S.	0	0	0
Aid from U.S.	0	0	0
Aid from other countries	750	n/a	n/a

1/ New cordoba notes were introduced in February 1988 with one new cordoba note equal to 1,000 old cordobas.

1. General Policy Framework

The Sandinista Government declared its commitment to a mixed economy when it assumed control in 1979. In practice, Sandinista economic policy has been a blend of a centrally-planned model and third world "anti-dependency" policies, with a shrinking role for the private sector. President Ortega has stated repeatedly that the Nicaraguan revolution has a socialist ideology based on Marxism, but "geopolitical realities" prevent the complete nationalization of the economy.

NICARAGUA

Sandinista economic mismanagement, compounded by the war, has produced an economy that has been declining at an accelerating pace since 1984. The economy is characterized by a chronic shortage of skilled labor, runaway inflation (reaching five digits in 1988 and 1989), inadequate foreign exchange, and an irrational pricing system. In an attempt to stem the deterioration, President Ortega initiated a major economic reform program in June 1988 and continued these efforts in 1989.

The reforms included a major devaluation, partial lifting of wage and price controls, an increase in the minimum wage for some workers, interest indexation and new limits on credit. These reforms have increased economic suffering in the short-term. In the longer term, the Government will probably be unable to maintain fiscal and monetary discipline. These measures have failed also to encourage investment or productivity. In fact, reduced production in the manufacturing sector was attributed to rising costs resulting from real exchange rate depreciation, higher interest rates, and price control liberalization on intermediate goods. However, the measures have slightly improved the prospects for agricultural exports, which represent two-thirds of total exports.

The fact that almost half of the Nicaraguan Government's budget is spent on defense contributes to a chronic fiscal deficit. More than 65 percent of government revenues come from taxes on liquor, beer, soft drinks and cigarettes. Tax revenues declined by 20 percent in real terms in 1988 as sharp price hikes dampened consumer demand for the above items. While the Government has raised some transportation and gasoline prices, health, transportation, utility and basic foodstuff costs remain heavily subsidized.

U.S. trade sanctions against Nicaragua have been in place since May 1985. The trade embargo prohibits the import of goods and services from and the export of goods to Nicaragua. The embargo does not prohibit financial transactions or the export of services. Nicaragua has found alternative markets for all export products and new sources for most import products (including U.S. goods), although costs have increased. In 1988, two-thirds of Nicaraguan exports were directed to Western Europe and Canada, while 40 per cent of imports were from eastern Europe and the Soviet Union.

2. Exchange Rate Polices

The Nicaraguan Government maintains an official exchange rate and also reestablished a legal parallel exchange rate in 1988. In February 1988, the Government introduced new cordoba notes (one new cordoba equalled 1,000 old cordobas and the Government set the exchange rate at 10 new cordobas/$1.00; approx. 50,000 old cordobas equalled $1.00 on the black market). The Sandinista Government vowed to keep the parallel exchange rate at par with the black market, which resulted in a continuing series of devaluations. During 1988, the

Government devalued the exchange rate eight additional times. In 1989, it increased the frequency of devaluation of the cordoba. Between December 1988 and December 1989, the legal parallel exchange rate was devalued by nearly 1,000 percent.

Nicaraguan exchange rate policies have had no effect on the competitiveness of U.S. exports since such exports are illegal under U.S. laws. Nicaragua's major exports are agricultural products. The high cost of imported inputs reduces any benefit Nicaraguan exporters might receive from a more realistic exchange policy.

3. Structural Policies

According to official statistics, almost half of all economic activity remains in private hands. In fact, however, the Nicaraguan Government dominates economic activity through extensive regulation and control. In general, the Government determines consumer and producer prices, the distribution of raw materials and most salaries, and often dictates product mixes and production rates. The Nicaraguan Government is the sole exporter, the exclusive importer, and controls all foreign exchange. Private companies and farmers frequently are required to sell their products at set prices to state trading enterprises that have monopolies on the export of such products as cotton, coffee, sugar, meat, and certain nontraditional exports. In 1988, the Government merged all foreign trading enterprises into the Nicaraguan Corporation of Foreign Trade Enterprises (CONIECE).

Nominally the June 1988 reforms permit the private sector greater freedom to set prices and salaries. However, the Government has issued veiled warnings that the private sector should not automatically pass on higher costs associated with devaluations and price increases of such government-controlled commodities as gasoline. U.S. subsidiaries remaining in Nicaragua are subject to the same comprehensive regulations and controls as Nicaraguan firms. While Nicaragua's foreign investment law allows full repatriation of capital and remittances of profits, the lack of foreign exchange renders this moot.

4. Debt Management Policies

Nicaragua's external debt totalled approximately $8.0 billion at the end of 1988, of which some $1.2 billion consisted of short-term liabilities. Medium- and long-term debt outstanding amounted to $7.3 billion in mid-1989. Nicaragua has failed consistently to keep current on its external debt payments. By the end of 1988, debt arrearages escalated to $2.6 billion, from about $1.8 billion in 1987. In 1988, 66 percent of Nicaragua's debt was owed to foreign governments, with another 19 percent owed to commercial banks.

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In 1988, Nicaragua's contractual ratio of debt service to exports totalled more than 220 percent, but the ratio of debt service actually paid to exports was 18 percent. Over the last five years, the ratio of actual payments has averaged about 18 percent. Nicaragua continues its efforts to reschedule its debt. In 1988, Nicaragua was able to renegotiate $240 million in debt compared to $18 million in 1987 and $1.2 billion between 1983 and 1985.

Neither the U.S. Government nor U.S. commercial banks are making new loans to Nicaragua. Nicaragua has not rescheduled its official debt under the Paris Club nor does it have an adjustment program with the World Bank or IMF.

5. Significant Barriers to U.S. Exports and Investment

The principal barrier to U.S. exports to Nicaragua is the U.S. trade embargo which makes such exports, other than for humanitarian, educational, and religious purposes, illegal. Additionally, the Government controls the allocation of scarce hard currency needed to purchase imports. The Government also sets prices and wages and controls the distribution of raw materials to private firms although these controls were relaxed somewhat in 1988 and 1989.

Because of the chronic shortage of foreign exchange, the Government frequently engages in countertrade practices, particularly with its eastern European trading partners. In addition, the Government purchases many of its imports from countries that have given it lines of credit, usually at concessionary terms.

A number of U.S. firms maintain a presence in Nicaragua, although many others have closed or curtailed their operations. The firms that remain are subject to the same Government controls imposed on local companies and suffer from the same lack of access to foreign exchange. The U.S. firms that have remained in Nicaragua have done so to protect their investment in the hope that eventually business conditions will improve, and not because it is currently profitable to do business in the country.

6. Export Subsidies Policies

In recent years, Nicaraguan exports have declined because of disincentives and bottlenecks created by misguided Sandinista economic policies. Problems include low producer prices, shortages of raw materials and imported inputs, inefficient management of state farms and businesses, inadequate infrastructure, and emigration of skilled workers.

One exception to these obstacles, is the special incentive system that the Government has created for nontraditional exporters. Exporters of nontraditional industrial products are allowed to exchange 25 percent of their earnings at the higher parallel market rate. Nontraditional exporters of agricultural products are allowed to sell 50 percent of their proceeds at the parallel rate. Partially as a result of these incentives, nontraditional exports, mostly agricultural products, have risen steadily, following a sharp rise in 1987.

7. Protection of U.S. Intellectual Property

Although Nicaragua is a signatory of the Universal Copyright Convention and the Brussels Satellite Convention, the Nicaraguan Government does not devote extensive resources to protecting the rights of foreign intellectual property owners.

Nicaraguan Government controls on imports and the overall shortage of foreign exchange further limit the availability of the equipment needed for creating or using counterfeited or pirated items. As most of Nicaragua's skilled labor and professionals, especially engineers and technicians, have left the country, it is doubtful that the capability to infringe patents on items of advanced technology exists.

The U.S. trade embargo, import restrictions, currency unavailability, and the small size of the domestic market make the problem of piracy and patent infringement relatively insignificant at this time.

8. Worker Rights *

a. The Right of Association

Article 87 of the Constitution provides Nicaraguan workers the right to associate in organizations of their own choosing and to elect their own representatives. In practice, however, the Government often uses coercion, economic pressure, or force to impede workers' rights to organize and elect their representatives.

The right to strike is recognized in Article 83 of the Constitution. However, a decree law in 1981 stipulated that any worker who incited a strike could be jailed for up to 3 years. The Sandinista Workers Central (CST) is affiliated with the World Federation of Trade Unions. The other major Sandinista labor central, the Rural Workers Association (ATC) is not affiliated with any international body. Anti-Sandinista trade unions are allowed a measure of freedom to maintain international contacts, although subject to government surveillance and harassment.

b. The Right to Organize and Bargain Collectively

Articles 82 through 88 of the Constitution contain a number of labor rights, including the right to negotiate individual or collective bargaining agreements. Nicaraguan workers, however, do not enjoy these rights in practice. The Government does not prohibit, but also does not participate in, collective bargaining with independent labor unions; it directs its own Sandinista-controlled union, the CST, to accept what the Government proposes. There are no economic priority zones where additional restrictions or regulations on labor apply.

c. Prohibition of Forced or Compulsory Labor

Although there is no official policy of using forced labor, the Government uses its mass organizations to mobilize local communities to perform specific economic development projects. The Sandinista Defense Committee (CDS) chiefs in various neighborhoods are responsible for organizing these labor crews for weekend work projects. Since the CDS is responsible for control of certain ration cards, failure to participate in these work projects can result in economic sanctions.

d. Minimum Age for Employment of Children

Children under 14 legally are not permitted to work. Article 84 of the Constitution states that, "child labor that can affect normal childhood development or interfere with the obligatory school year is prohibited." This law is generally enforced in the small modern sector of the economy, but children frequently work on family farms at an earlier age.

e. Acceptable Conditions of Work

The Government has not strictly enforced employer compliance with occupational health and safety requirements. The minimum wage for workers varies from sector to sector. The average wage for agricultural workers is about $14 per month (plus food allocations and incentives). The average minimum wage for the industrial and service sectors is about $21 per month. The Government periodically adjusts state workers' salaries.

The legal work week in Nicaragua is 48 hours for most workers. The legal workday for agricultural workers is 6 hours, and the work day in the mining sector is 7 hours.

f. Rights in Sectors With U.S. Investment

Articles 82 through 88 of the Nicaraguan Constitution contain a number of labor rights, including the right to establish and join organizations of labor's own choosing, to elect their own labor representatives and to negotiate individual or collective bargaining agreements. Nicaraguan workers in all sectors, however, do not enjoy these rights in practice.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		42
Food & Kindred Products	42	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	-2	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Nicaragua country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions of dollars unless otherwise stated)

	1987	1988	1989
Income, Production and Employment			
GDP (current prices)	5,317.4	4,206.1	3,884.0
GDP (constant 1970 prices)	2,126.0	1,700.8	1,598.0
Real GDP growth (pct)	2.4	-20.0	-7.0
Sector shares			
Finance/real estate/	774.6	429.0	428.0
Government services	681.3	652.9	478.0
Commerce/restaurants/hotels	609.0	452.1	355.0
Agriculture	535.5	489.9	395.0
Panama canal	482.5	463.9	445.0
Manufacturing	475.5	360.1	378.0
Pipeline	369.7	303.2	185.0
Construction	229.9	89.3	63.0
Colon Free Zone	202.1	185.0	237.0
Utilities	191.4	188.7	213.0
Transport/communications	281.8	188.7	276.0
Other	483.9	403.8	407.0
GDP/per cap (dols, crnt prices)	2,342.5	1,813.0	1,675.0
Labor force (1,000s)	769.4	784.8	800.0
Unemployment (pct)	11.6	18.0	20.0
Money and Prices			
Money supply (M1)	n/a	n/a	n/a
Banking (as of June 30) (bils $)			
Total banking center assets	40.8	14.6	15.0
Domestic credit outstanding	4.4	4.0	3.9
Domestic private deposits	3.0	2.1	1.9
Off-shore deposits	29.2	7.0	8.7
Commercial interest rates (pct)	11.0	12.8	14.6
Consumer prices (pct chg)	1.0	0.9	-0.1
Gross dom. saving rate (pct of GDP)	19.4	19.1	n/a
Gross dom.investment (pct of GDP)	17.7	7.4	n/a
Gross fixed cap. formation	17.7	8.8	n/a
Change in inventories	0.0	-1.4	n/a
Balance of Payments and Trade			
Current account balances			
Merchandise exports FOB *	2,520.0	2,338.9	2,470.0
Re-exports (CFZ)	2,181.0	2,058.4	2,250.0
Exports FOB (exclud CFZ)	339.0	279.6	220.0
Merchandise imports FOB*	3,116.4	2,515.2	3,030.0
Imports FOB (CFZ)	1,956.8	1,813.7	2,200.0
Imports (fob) exclud CFZ	1,159.5	701.5	830.0
Trade balance*	-596.4	-176.3	-560.0
Exports - other goods & serv	3,414.0	2,040.0	1,796.0
Imports - other goods & serv	2,637.0	1,221.0	997.5
Balance - other goods and serv	777.0	819.0	798.5

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Balance of Payments and Trade (cont)	1987	1988	1989
Principal exports FOB			
Bananas	85.7	90.0	89.0
Shrimp	64.9	60.0	56.9
Coffee	17.9	14.0	8.0
Sugar	16.9	2.5	1.4
Clothing	12.9	10.1	14.9
Petroleum products	47.6	36.1	34.5
Fish meal and oil	7.4	4.0	2.4
Principal imports CIF			
Foodstuffs	122.8	89.3	133.2
Capital goods	257.9	120.5	78.8
Crude oil	174.3	93.8	130.9
Other goods	752.7	431.2	532.4
U.S. exports to Panama FOB*	701.9	588.2	606.1
U.S. imports from Panama CIF*	342.7	256.0	245.1
Public sector debt & finances (bils $)			
Total public debt	6.7	6.0	6.2
External debt	5.3	5.0	5.2
Long-term	3.7	3.8	3.8
Use of IMF credit	.3	.3	.3
Short term debt (est))	1.3	.6	.4
Cumulative arrears (est)	.0	.3	.7
Domestic debt	1.4	1.0	1.0
Long-term debt/GDP ratio (pct)	69.6	90.3	97.7
Forex reserves (mils $)	77.8	72.2	66.7
Aid from U.S.	15.6	1.2	0.0
Aid from other countries	n/a	n/a	n/a
Central govt finances (mils $)			
Current revenues	1,028.0	588.0	598.0
Current expenditures	1,672.0	847.0	750.0
Current deficit	-644.0	-259.0	-152.0
Panama Canal			
Number of oceangoing transits	12.2	12.4	12.2
Total cargo (mils lg tons)	150.8	155.0	150.3
Tolls revenue (mils $)	331.0	340.5	331.6
Gross income flow to Panama from Canal area USG agencies	560.5	565.4	525.0

Includes data from Colon Free Zone (CFZ)

Sources: Comptroller's Office, National Banking Commission, World Bank, IMF, Institute of International Finance, and Embassy estimates.

NOTE: The majority of this report is based upon information submitted by the U.S. Embassy in Panama in November 1989, and does not necessarily reflect changes in Panamanian or U.S. policy instituted since President Endara took office on December 20, 1989.

PANAMA

1. General Policy Framework

On December 20, 1989, the United States undertook military action in Panama to protect the lives of American citizens and the integrity of the Panama Canal, return the country to democracy, and apprehend General Noriega. All of those objectives were achieved.

Also on December 20, the victors in the May 7 elections, which had been unconstitutionally annulled by Noriega, assumed office. Shortly thereafter, the Electoral Tribunal certified that the elections had been annulled under duress and the true winners of the May 7 election were Guillermo Endara and his two vice presidential running mates. They will remain in office through 1994, and were filling vacancies in the government as this went to print.

President Endara has appointed Vice President Guillermo Ford as Minister of Planning. Ford has announced that the government will encourage the private sector to invest in Panama and expand production. Employment generation projects will be a high priority, as will combatting corruption.

The United States has announced the lifting of economic sanctions against Panama with the return of democracy. In addition, the over $400 million in Panamanian government funds which had been frozen or placed in escrow in the United States as a result of the sanctions are being returned to Panama.

A U.S. Government interagency team, chaired by the Departments of State and Treasury, is considering a plan for promoting economic recovery in Panama. In early January, the Deputy Secretary of State and the Deputy Secretary of the Treasury led a high-level economic team visit to Panama. The team met with officials of the Panamanian Government, and discussed plans for revitalizing the economy. Technical experts remain in Panama, and are formulating concrete proposals for U.S. initiatives to support growth there.

The U.S. Government will encourage the international community, multilateral organizations and the private sector to participate in the economic recovery effort in Panama.

The Legacy of the Noriega Regime: President Endara's government faces substantial economic challenges. The economy has been seriously damaged by the two-year political crisis, caused by the corruption of Defense Forces Commander Noriega and the existence of an illegal and unconstitutional regime.

For the past two years, the Noriega regime did not have an approved budget, and ran the Government by directing all revenues into a central pool and allocating money for expenditures according to political priorities. In 1988 and 1989 the regime took in about half of the revenues it had taken in previous years. Revenues from January through August 1988 were $389.9 million, compared to $823 million for the same period in 1987. (Regime expenditures were principally government workers' salaries and other high priority political needs.) There were no external debt service payments in 1989 and infrastructure projects were non-existent.

Panama's economic depression was exacerbated by historical and protracted financial mismanagement which had become apparent by 1986 and led to negotiations of World Bank structural adjustment loans (SAL I and SAL II). The reforms required could not be implemented fully due to a lack of political will of the military leadership and pressures from influential lobbyists. Soon after, the World Bank declared Panama ineligible for further disbursements on existing loans.

Subsequent events eroded the remaining private sector confidence in the Panamanian economy: the U.S. indictments of General Noriega in February 1988 on drug-related charges; Noriega's illegal dismissal of President Delvalle; and the banking sector's shutdown in March 1988 for three months.

In response to increasing disregard for human rights and democracy, the U.S. Government suspended economic and military assistance, and eliminated Panama's eligibility for the Caribbean Basin Initiative and Generalized System of Preferences benefits. U.S. Executive Order 12635 of April 8, 1988, imposed economic sanctions against Panama to cut off revenues to the illegal regimes of Noriega/Solis and Noriega/Rodriguez and block its assets. U.S. economic sanctions deepened the economic crisis, but they were not its root cause.

Panama's gross domestic product (GDP) in 1989 at current prices is projected to have dropped to $3.88 billion. This decline of 7.5 percent in real terms over 1988 yielded an accumulated decline of 27.5 percent since 1987 when the crisis started. In January 1990, the economy was at about 80 percent of pre-crisis levels, a retrogression of almost 10 years. Inflation, however, remained insignificant since the U.S. dollar is legal tender.

Real growth in 1989 was marginally positive in a few sectors compared to 1988. The comparison to 1987 production levels, however, shows a continued decline in key GDP sectors in 1989; construction activity had almost vanished, banking assets were drastically reduced, and tourism's contribution to GDP was halved.

The removal of Manuel Antonio Noriega on December 20, 1989, and the short period of civil disturbance that followed caused additional serious damage to the Panamanian economy. However, with the establishment of stable democratic government under Guillermo Endara, confidence within the Panamanian business and financial communities is returning. A shortage of liquidity in the banking system remains a problem, but business and investment opportunities are likely to expand rapidly. Trade activity in the Colon Free Trade Zone was of importance to many U.S. and foreign companies in 1989, and will become increasingly more important. Overall bilateral trade with the United States will remain important for Panama.

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2. Exchange Rate Policies

Panama is unique as a dollar-based economy. This is one of the country's major comparative advantages. The exchange rate is fixed at one balboa to $1.00. The balboa is issued only in coins and the U.S. dollar circulates freely as legal tender. Panama maintains no foreign exchange controls. The openness of Panama's economy and the traditional high degree of integration of its international financial markets means that Panama's money supply is determined primarily by its trade of goods and services and international interest rate movements.

3. Structural Policies

Policies under the Noriega regime looked to the private sector for the bulk of investment, and several structural adjustments were made to offer investment opportunities in tourism and construction. For example, tariffs on goods and services related to tourism were reduced to a flat 2.5 percent. In addition, the regime promoted the development of a new port facility--referred to as Center Port.

The lack of private sector confidence as long as Noriega was in power and the resulting economic and political crisis inhibited new investment. Also, despite a publicized plan to liberalize the economy, new price controls were announced for various pharmaceuticals and basic products as part of the Noriega regime's war laws, instituted in October 1989. Other reasons used to justify the price controls included: economizing on foreign exchange; increasing accessibility to staple goods; and protecting Panamanian products.

4. Debt Management Policies

Total external debt is projected to be $5.3 billion, with $3.8 billion in long-term maturities. For over two years the Noriega regime made no external debt service payments. The Endara government therefore inherited total arrearages on interest alone of $735 million. (The World Bank puts the total of arrearages on principal and interest at over $2 billion.) The external debt to GDP ratio was 97.7 percent in 1989, one of the highest in the world, compared to 69.6 percent in 1987. (The World Bank estimates that the average value of this ratio for highly indebted nations was 63 percent in 1987). In September 1989, the IMF formally declared Panama ineligible for new lending from fund resources. A large part of Panama's debt problem stems from a longstanding strategy of financing growth through fiscal deficits.

5. Significant Barriers to U.S. Exports

Import Licenses: The Government of Panama has no import licenses. All imported goods must pay the respective import duties and surcharge, plus a five percent sales tax, regardless of the country of origin. Goods enter the Colon Free Trade Zone (CFZ) duty free, and products entering the Panamanian economy from the CFZ are assessed duty and taxes. In practice, the regime did little to prevent contraband from the CFZ, especially by regime supporters.

Standards, Testing, Labeling and Certification: All imported packaged and bottled foods and beverages must be registered by the Ministry of Health. The original registration is valid for a period of ten years. Pharmaceuticals, drugs, vitamins, cosmetics and other similar products also are subject to the above regulations.

Services Barriers: The Government of Panama officially does not present any barriers to U.S. investments in the following service areas: banking, insurance, travel, air couriers, franchising, or accounting services. Lawyers must be certified by Panamanian boards.

Investment: The Government officially promotes foreign investment and affords foreign investors national treatment. The Government traditionally has favored agribusiness and export-oriented industries and has set aside special industrial areas and provided fiscal benefits. Disinvestment may be difficult for foreign and Panamanian companies because of Labor Code regulations.

Government Procurement Practices: The Noriega regime was buying less through competitive bids and suppliers' credit since the regime's creditworthiness had become too high a risk for vendors. Moreover, U.S. economic sanctions required that U.S. firms sell only on a cash or short-term credit basis. The regime granted contracts by executive order to companies that would give extended credit, even if its prices were higher. In addition, the regime attempted to arrange more barter and countertrade deals with Central American and socialist countries. This type of transaction represented only a small percentage of total trade.

Customs Procedures: All merchandise imported into Panama must have a consular invoice, a commercial invoice and a bill of lading. No consular invoice is required for shipments to the Colon Free Trade Zone, or via air. Merchandise imported into Panama must be cleared through customs by a licensed customs broker. Exceptions are made for merchandise imported for the Government or into the Colon Trade Zone. Under normal conditions, the clearance procedure is not burdensome.

6. Export Subsidies Policies

Toward the end of its rule, the Noriega regime proposed reformulating the requirements for the use of a major export subsidy referred to as Certificado de Abono Tributario (CAT), which offers tax credits to exporters of nontraditional goods. The proposed modification would have given greater weight to labor content and would have established a maximum period for cashing in CATs. Exporters of nontraditional goods could then sell the CATs or use them to pay corporate income taxes. The regime had been imposing restrictions on the use of CATs, particularly by manufacturers involved politically with the opposition.

The regime also subsidized exports through a maquiladora-type (in-bond) program which grants export industries, both foreign-owned and domestic, low rent, duty-free import of inputs, tax exemptions, and, in the Colon Free Zone, prohibition against unionization.

7. Protection of U.S. Intellectual Property

Panama is a party to the Universal Copyright and the Brussels Satellite Conventions.

Panama's adherence to the major international conventions governing intellectual property rights offers foreigners more protection than currently is offered to domestic Panamanian interests under Panamanian law. A legislative proposal to strengthen laws protecting domestic intellectual property rights was approved by the Panamanian Cabinet in 1985, but has never been formally enacted by Panama's Legislative Assembly.

In the past, Panama has recorded some notable successes in enforcement of U.S. intellectual property rights. In 1986, the Panamanian Government cooperated with the U.S. to shut down the cable television firm of Rexsa which was pirating U.S. television progamming. In 1985 and 1986, Panama closed down large videotape pirating operations in Panama City and the Colon Free Zone. In August 1988 the Panamanian Supreme Court upheld a 1987 decision by the Commerce Ministry that a Panama City restaurant was illegally using a U.S. trademark in its name and advertising.

Most recently, however, pirating of television shows and video tapes is on the increase. Panama's current economic depression and related political upheaval are believed to have sparked renewed pirating and counterfeiting activities, particularly in the Colon Free Zone. In addition, the CFZ appears to have been increasingly used as a distribution point for pirated products and labeling of counterfeit goods brought in from other countries. Enforcement of Panama's laws governing intellectual property rights was uneven during the crisis. The Noriega regime did not actively pursue violations of U.S. patent and copyright laws by regime friends and cronies.

Panamanian law does not specifically address the issue of protection of specific new technologies, such as computer software, integrated circuits or semiconducter chips. In one test case, however, a Panamanian court upheld protection of computer software authorship rights, based on a broad interpretation of an article of Panama's administrative code.

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8. Worker Rights *

The political crisis had a severe negative impact on worker rights in Panama. Workers were fired, arrested and jailed for exercising their labor rights. The Endara Government has made a commitment to restore full exercise of all human rights in Panama.

a. Right of Association

Workers are generally free to join the union of their choice. Almost all labor leaders and organizations, however, were controlled by the regime through such tactics as direct payoffs, gifts, or intimidation. For example, in the May 1989 elections, more than 30 labor leaders ran for election on the regime ticket and were given government/regime financial and staffing assistance for their campaigns.

b. Right to Organize and Bargain Collectively

The right to organize is denied in two private sector areas, the Colon Free Zone and the offshore banking sector. In addition, the regime selectively denied or interfered in this right. In 1988-9, the regime succeeded in illegally gaining control of the leadership/elections of the largest private sector labor central, the Confederation of Republic of Panama Workers (CTRP). Labor leaders charged that the regime used the Labor Ministry to protect extensive regime economic interests in violation of the Labor Code, and denied labor the right to bargain. Complaints charging the regime with interference in the right to organize and employer rights were filed with the International Labor Organization (ILO) in 1989.

c. Prohibition of Forced or Compulsory Labor

Panama has an extensive labor code which prohibits forced or compulsory labor.

d. Minimum Age of Employment of Children

Labor is prohibited for children under 14, or under 15, if the child has not completed primary school. Both hazardous and night work are prohibited for persons under 18. Children between 12 and 14 may perform farm or domestic labor as long as the work is light and does not interfere with schooling. However, in the deteriorating economic climate, some children are being used for labor in violation of the existing law.

e. Acceptable Conditions of Work

Panama has a comprehensive Labor Code which gives extensive rights and benefits to workers. The maximum workweek is 48 hours. The law has established a minimum wage for most work categories and requires substantial bonuses to be paid for overtime and separation. Although Labor Code reforms in 1986 released employers from the obligation to pay certain bonuses and overtime premiums, employers continue to be required legally to provide workers with compensation adequate for basic needs. The Labor Code details numerous health and safety standards for all workplaces. The Minister of Labor and Social Welfare is responsible for ensuring compliance with these regulations, but limited resources hamper strict enforcement of some Labor Code provisions.

f. Workers Rights in Sectors with U.S. Investment

Conditions in goods producing sectors with U.S. investment do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum Refining and Distribution		1,419
Total Manufacturing		248
Food & Kindred Products	78	
Chemicals & Allied Products	148	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	17	
Wholesale Trade		847
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,514

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Panama country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

PARAGUAY

Key Economic Indicators

(Paraguayan guaranis (G) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, and Employment			
GDP (bils current $)	3.7	3.9	4.1
GDP (current G) 1/ 2/	2,493,601	3,319,124	4,573,753
GDP growth rate (1982 prs) 1/2/	4.3	0.4	6.0
GDP per capita (constant prices-G)	203,801	210,491	216,806
GDP by sector (pct)			
Agriculture/cattle/forestry	26.0	27.3	27.3
Manufacturing	16.2	16.1	16.0
Construction	5.8	5.6	5.0
Transport/communications	4.6	4.6	4.0
Commerce/finance	27.1	26.5	27.
Central govt (wages only)	4.4	4.3	4.0
Other	15.9	15.6	14.4
Labor force (thousands)	1,257	1,298	1,337
Unemployment rate (national) 1/	11.6	11.8	12.0
Underemployment rate (national) 1/	22.9	20.4	23.0
Money and Prices			
Money supply (M1) 1/ 2/	267,923	378,603	548,974
Commercial banks lending rates (pct)	23.0	28.0	28.0
Savings rate (as pct GDP)	15.3	5.5	15.0
Investment rate (as pct GDP)	25.0	24.9	22.2
Consumer price change 7/ (yrly avg)	21.8	23.0	30.0
Wholesale price change (pct) (yrly avg)	30.4	25.0	30.0
Exchange rate			
Official export	550	550	n/a
Parallel	640	930	1205
Balance of Payments and Trade			
Merchandise exports FOB 1/4/5/	850.0	950.0	1,020.0
Exports to U.S. FOB (pct) 9/	6.3	3.7	4.0
Merchandise imports CIF 1/4/	900.0	980.0	1,010.0
Imports from U.S. CIF (pct) 8/	8.0	7.7	7.0
Aid from U.S. 4/	.9	.8	1.0
Aid from other countries 4/	60.0	65.0	71.0
External debt (public) 3/ 4/	2,042.0	2,200.0	2,020.0
Debt service paid 1/ 10/	299.7	279.0	210.0
Forex reserves 1/ 3/ 4/	526.5	338.3	415.0
Balance of payments 1/ 4/	-240.0	-135.0	77.0

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1/ estimates or projections
2/ millions of guaranies
3/ end-of-period
4/ millions of U.S. dollars
5/ Embassy export estimates are derived from registered exports based on volume and international price.
6/ includes deficit financed by the preferential exchange rate
7/ Central Bank
8/ A large percentage of U.S. exports is destined for third countries and thus not included in Paraguayan import accounts.
9/ uses U.S. Department of Commerce estimates
10/ includes Brazilian external debt bought at discount

1. General Policy Framework

Paraguay, with a population of 4.1 million, an annual population growth rate of 2.9 percent, and total land area of 154,047 square miles (roughly the size of California), has a small domestic market and limited but expanding access to world markets through the Paraguay/Parana river system and a paved highway into Brazil. Asuncion is the political, financial, administrative, and commercial center of the country. The capital city with its suburbs has about 1.3 million people, nearly one-third of the total population. Paraguay is considered a developing country, with a gross domestic product estimated for 1989 at $4.1 billion and a per capita GDP of approximately $980. Eastern Paraguay's fertile lands are ideally suited to farming and ranching. Cotton and soybeans account for nearly three-quarters of total exports.

Following the February 2-3, 1989 coup ending the 34 years of the Stroessner regime, the new Government moved quickly to liberalize the economy. The multiple exchange rate system was abolished and replaced with a single, free-floating rate. A new investment law, Decree Law 19, was enacted to provide a transparent system of incentives to potential investors.

Paraguay has perhaps the largest per capita hydroelectric power potential in the world. Itaipu, the binational hydroelectric project being developed with Brazil on the Parana River, already is the world's largest hydroelectric facility, with an installed capacity of 10,500 megawatts (15 of 18 turbines as of 1989) of a planned 12,600. Itaipu began generating its first power in late 1983. The total estimated cost of the project is $20 billion.

Yacyreta, a second large binational hydro project (with Argentina) on the Parana River, is several years behind schedule. The main civil works construction began at a slow pace in December 1983. The project now is moving ahead rapidly with heavy construction work underway. When completed, the project will have an installed capacity close to 5,000 megawatts. The final cost of the project may reach $12 billion by completion in 1996. The U.S. Export-Import Bank is financing $250 million for the construction of the turbines and an estimated $300 million in suppliers credits to Argentine firms working on the project.

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During the heavy construction phase of the Itaipu Dam (1976-81), the Paraguayan economy registered the fastest growth rates of any economy in the South American continent (11 percent per year). Beginning in 1982, a series of negative external and internal factors combined to reduce sharply these rates of growth, thus creating a pattern of intermittent periods of recession (1982, 1983, and 1986), and modest recoveries (1984-85 and 1987-88). The negative consequences of the downturn include reduced levels of real growth, abnormally high inflation rates, a flattening of investment levels, a deterioration in the balance-of-payments, and large increases in external indebtedness.

Fiscal Policy: For the first time in the last 35 years, the Ministry of Finance is preparing a complete overhaul of its tax collection system, which is totally obsolete. According to the Ministry, the first measures will be implemented in early 1990. The administrative reforms are programmed to be completed at least 50 percent during 1990, with the remaining 50 percent scheduled for 1991.

The Government also aims to simplify the present system, which consists of 82 different tax laws, for levying taxes. The main objectives of tax reform, as expressed by the Minister of Finance to the Paraguayan Congress, are: (a) to increase tax revenues significantly; (b) to increase the elasticity of the tax system; (c) to simplify the tax administration bureaucracy. The Ministry of Finance already has drafted several new tax laws, which will be submitted to the Congress as soon as the 1990 budget is approved. Most of these proposals would modify existing taxes, such as stamp, real estate, and sales taxes.

Monetary Policy: On February 27, 1989, the Government adopted a broad program of monetary and administrative policies, which was prepared by a special ad hoc committee. Its main highlights are: (a) a tight credit policy, established by the Central Bank for the public sector to restrict the expansion of the money supply; (b) the service of the public external debt was made subject to the availability of Central Bank foreign exchange reserves; (c) the government-owned utilities must henceforth operate without subsidies. Rates charged should at least cover operating costs; (d) in-depth surveys were ordered of the economic-financial health of certain government enterprises which may eventually be privatized, including the merchant fleet, the international airline, the alcohol monopoly, the cement plant, and the steel plant.

2. Exchange Rate Policies

On July 16, 1982, the Paraguayan Central Bank established "on a temporary basis" a new foreign exchange control system with multiple exchange rates in an attempt to restore order to the local foreign exchange market. This was a dramatic change for Paraguayans, who had been accustomed to a relatively free exchange system for the previous 25 years.

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After several successive devaluations of the guarani, beginning July 1988 and through February 1989, the Central Bank supplied dollars at the exchange rate of guaranies 400 per/$1.00 (240 and 320 for a few government enterprises) for servicing the public external debt and for public sector imports. During this period the average free market rate of the guarani was 960/$1.00. Foreign loans disbursed in Paraguay were settled at guaranies 550/$1.00. This meant that the public sector was benefitting from an enormous exchange rate subsidy financed primarily by drawing down Central Bank foreign exchange reserves. The central government and the government agencies received during 1989 foreign exchange rate subsidies estimated at approximately guaranies 25 billion and 75 billion, respectively. During the first two months of 1989, these subsidies distorted completely Paraguay's financial picture.

On February 27, 1989, the Government abolished the foreign exchange control system with all of the multiple exchange rates in force and re-established a free market exchange system. All foreign exchange transactions, public and private, are now being settled at the daily free market rate. The value of the guarani vis-a-vis the U.S. dollar and other foreign currencies is established by supply and demand, with minor intervention by the Central Bank. The free market rate on December 31, 1989 stood at guaranies 1,205/$1.00.

3. Structural Policies

Pricing Policies: Consumer prices are generally determined by supply and demand factors, except for public sector utility rates (water, electricity, telephone), petroleum products, pharmaceutical products, and several key food items (wheat and sugar products). Government purchases of local and foreign goods normally are subject to the open bidding system that takes into account price, quality, and reliability. For government procurement, informal purchasing practices and procedures treat domestic producers more favorably than foreign.

Tax Policies: The Paraguayan tax system is based mainly upon indirect taxes. The proposed FY1990 (also calendar year) budget indicates that about 50 percent of estimated central government revenues will be derived from sales and stamp taxes, 15 percent from income taxes (mainly corporate taxes), 10.9 percent from taxes and duties on imports and exports (mainly imports), 2.5 percent from real estate taxes, and the remaining 21.6 percent from miscellaneous revenue sources. Paraguay's chief problems in administering tax policy have been non-compliance and administrative incompetence/corruption.

Regulatory Policies: There are no official regulatory practices that affect negatively on U.S. exports. The Government's free exchange policy has encouraged greater use of legal channels for exports and imports. A large percentage of U.S. exports to Paraguay is destined for third countries, mainly Brazil and Argentina.

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4. Debt Management Policies

During the period 1981-89, Paraguay's disbursed public debt increased from $1.0 billion to $2.0 billion. During the same period, external debt service obligations skyrocketed from $109 million per year to an estimated $550 million (including arrears) per year. Paraguay is amortizing a large portion of its foreign debt with Brazil at a steep discount. No official data are available but reliable sources indicate that the country may amortize as much as $250 million of such debt at an average discount of around 65 percent. In 1988, Paraguay's debt service included $160 million paid in principal and $119 million in interest. In terms of actual payments, Paraguay's external debt service as a percentage of total 1988 exports stood at 25.3 percent, and is estimated to have fallen to 21 percent in 1989.

The Government has conducted ad hoc rescheduling agreements with some of its private creditors and has reached a rescheduling agreement with its largest creditor, Brazil, whereby Paraguay may service its debt at face value with Brazilian debt bought in the open market at a discount. Nonetheless, the heavy debt burden continues to strain Central Bank foreign exchange reserves and total arrears are estimated at $231 million. Because of this burden, Paraguay has begun discussions with the IMF on a standby program and with the World Bank on a structural adjustment loan, with a view toward an eventual Paris Club rescheduling of official bilateral debt. Paraguay's last IMF program was 30 years ago.

Of the $2 billion registered external public debt, approximately 40 percent is held by the central government and an additional 60 percent is owed by the public sector enterprises. The largest debtors are (1) the National Steel Company (ACEPAR) with $340 million, or 17 percent of total debt, (2) the National Electric Company (ANDE) with $252 million, or 13 percent of total debt, and (3) the National Cement Company (INC) with $240 million, or 12 percent. Among Paraguay's principal multilateral creditors are the Inter-American Development Bank ($362 million) and the World Bank group ($262 million). Of the bilateral creditors, Brazil is the largest lender, with a credit balance of $435 million; France is second with $400 million. By contrast, Paraguay's debt to the U.S. is a relatively insignificant $50 million.

U.S. creditors should take warning that recent Paraguayan judicial decisions (subject to appeal), questioning the concept of repayment of loans in foreign exchange applicable to external debt obligations between international private banks and Paraguayan private firms, could result in major losses for international creditors. This factor places in doubt the viability of all loans denominated in foreign currency that are not guaranteed by the Paraguayan Government.

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5. Significant Barriers to U.S. Exports and Investment

Although Paraguay is a small country with a relatively small manufacturing sector, it generally has not sought to construct protective trade barriers. In practice, Paraguay is probably the most open market in the southern cone.

Import Licenses: Import licenses are not required in Paraguay except for firearms and certain types of pharmaceutical products.

Service Barriers: There are no existing barriers that are known to have a negative impact on U.S. exports of services. A proposed bank reform law, if passed, could be prejudicial to foreign banks operating in Paraguay. Under the proposed law, the reserve requirement for foreign banks would be increased above 50 percent, while locally owned banks' reserve requirement would be reduced below 40 percent.

Investment Barriers: The Government of Paraguay favors foreign private investment, particularly when it increases production of goods and services, stimulates the development of rural areas of the country, and produces or processes raw materials thereby increasing exports or contributing to the substitution of imports.

The new investment law, approved by Decree Law 19 of April 28, 1989, is probably one of the most liberal in Latin America. Investments are granted generous exemptions from all type of taxes and custom duties, for a period up to 10 years from the date the investment is made. The Law currently is in effect while awaiting ratification by the Congress.

Government Procurement Practice: Public sector procurements generally are based on a competitive bidding process. Assuming no more than one firm bids on a particular purchase proposal, the Government must call two more bids to attempt to attract new firms into competitive bidding. If after the third bid there remains only one firm, then the government agency can authorize the purchase on a noncompetitive basis.

Customs Procedures: Probably the chief obstacle to smooth exporting to Paraguay remains the cumbersome bureaucratic procedures practiced by local customs. The long delay by customs dispatchers in clearing shipments is also a handicap for Paraguayan exporters, and is not seen as a discriminatory measure against imports.

6. Export Subsidies Policies

There are no discriminatory or preferential export policies. Paraguay does not subsidize its exports; in fact, export taxes and duties represent a significant source of central government revenues. Nonetheless, many agricultural exporters do receive favorable short-term financing from official sources (Central Bank and the National Development

Bank) with negative lending interest rates the norm. The Central Bank recently established a futures market in foreign exchange, whereby agricultural exporters or commercial banks which finance agrobusiness may sell forward dollars for guaranies for a period of up to ten months, with the Central Bank guaranteeing the exchange rate at the buying rate of the day. The Central Bank charges only a flat premium or insurance of 4 or 8 percent collected when the dollars are repurchased.

7. Protection of U.S. Intellectual Property

Of the major intellectual property accords, Paraguay is a party only to the Universal Copyright Convention.

Paraguay's chief failure in the area of intellectual property rights is the lack of consistently effective enforcement of the laws in place. Another negative factor is the slow working of the judicial system in issuing timely and clear decisions on trademark infringement cases.

Under existing Paraguayan patent legislation, which is similar to U.S. legislation, intellectual property is protected. The legislation states that every new discovery in any type of industry, with the major exception of pharmaceuticals, whether foreign or domestic, confers upon its author the exclusive right to exploit fully the discovery for his exclusive gain for a renewable period of 15 years.

In principle, foreign patents must be registered with the Office of Patents of Invention and are subject to the same procedures and fees as national patents. The person applying for the revalidation of a foreign patent, granted by virtue of an international treaty or convention, must mention the country of origin, serial number, date, and duration of the patent issued. The nationality of the owner of a patent or of the person applying for the patent is important, because Article 36 of Law 773 establishes that foreigners are equally entitled to the benefits of the law, if the laws of the country where their establishments are located, directly or indirectly, provide for reciprocal treatment of Paraguayan patents, or if this equality is granted through diplomatic conventions

Paraguay is a major regional hub for the import/export of counterfeit goods. From the Far East come large quantities of counterfeit watches, perfumes, other cosmetics and designer clothing. While there are a few cases of police enforcement and judicial action against those involved in the counterfeit business, the huge volume of the trade shows that the local authorities have not seriously limited this illicit activity.

There is widespread reproduction and trade in pirate video cassette tapes. Nearly all of Paraguay's local video stores rent large numbers of pirate cassettes while officials appear to turn a blind eye. We know of no protection case filed by a U.S. firm in the local court system.

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The large scale infringement of new technologies is not evident, largely because Paraguay does not have the know-how to absorb these technologies. However, there is widespread piracy of satellite and television signals.

While the presence of counterfeit products is prevalent, most of the bogus products are imitations of Japanese and European products. Paraguay's failure to protect intellectual property rights does not appear, in export value terms, to represent significant losses for U.S. commercial interests.

8. Worker Rights *

Paraguay has been without beneficiary status in the U.S. Generalized System of Preferences (GSP) program since 1987, when it was found not to be in compliance with the GSP statutory requirements regarding internationally recognized worker rights.

a. The Right of Association

After the February 1989 coup that overthrew the Stroessner regime, private sector workers became free from government interference to form and join unions of their choosing. Public sector workers continue to be prohibited by law from unionizing. By the end of 1989, the Ministry of Labor had granted legal recognition to more than 200 unions. Only a small proportion of Paraguay's workers are organized. However, 1989 saw the birth of the Central Unitaria de Trabajadores (CUT) and the National Workers Central (CNT), two independent labor centrals. Both have been granted legal recognition. The right to strike, while recognized under Paraguayan law, remains difficult to exercise due to the complex legal process required before a strike can be considered legal.

b. The Right to Organize and Bargain Collectively

The right to bargain collectively is recognized in the Labor Code, but the Government in the past did little to enforce the provision and it was not practiced generally. Some employers agree to collective bargaining but there are no legal sanctions or government pressures forcing them to do so.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by law and is not practiced.

d. Minimum Age of Employment of Children

Minors between 15 and 18 can be employed only with parental authorization. Children between 12 and 15 may only be employed in a family enterprise, as an apprentice, or in agriculture. The Labor Code prohibits work by children under 12. It has been estimated, however, that economic hardships have led some 15,000 children, many younger than 12, to work in the informal sector in the streets of Asuncion.

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e. Acceptable Conditions of Work

The Government establishes a private sector minimum monthly wage (approximately $125 in Asuncion). The Labor Code provides minimum guarantees of worker rights and benefits, but does not cover most of the public sector. Maximum hours of work are 8 per day or 7 at night, with one day of rest per week. The law provides for a one-month annual bonus. The Code also governs conditions of safety, hygiene and comfort. In general, in the past the Government did not enforce effectively the health and safety provisions of the Code.

f. Rights in Sectors with U.S. Investment

Conditions in sectors with U.S. investment generally are the same as in other sectors of the economy. A strike involving part of the work force at a U.S. subsidiary company was lifted in November 1989 when the company agreed to implement a court order to re-incorporate about 100 workers who had been fired for participating in an illegal strike.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category		Amount
Petroleum		-21
Total Manufacturing		2
Food & Kindred Products	2	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
Total Petroleum/Manufacturing/Wholesale Trade		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Paraguay country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

PERU

Key Economic Indicators

(Millions of U.S. dollars unless otherwise noted)

	1987	1988	1989	2/
Income, Production and Employment				
Real GDP 1/				
(1979 intis, mils)	4,283	3,905	3,241	
(1979 $)	18,622	16,978	14,092	
GDP growth (pct)	7.8	-8.8	-17.5	
GDP by sector				
Agriculture	1,991	2,091	n/a	
Fisheries	122	143	n/a	
Mining	1,987	1,609	n/a	
Manufacturing	4,713	4,061	n/a	
Construction	1,113	1,070	n/a	
Government	1,261	1,265	n/a	
Others	7,435	6,739	n/a	
GDP per capita (1979 $)	898	798	646	
Labor force (thous)	6,989	7,169	7,389	
Unemployment (pct)	8.5	12.0	15.0	
Money and Prices				
Money supply (M1)				
(million intis)	78,988	467,193	10,932,522	3/
Comm interest rate (pct)	30	70	1,100	
Savings rate (pct)	n/a	n/a	n/a	
Investment rate (pct)	n/a	n/a	n/a	
CPI (pct)	114.5	1,722.3	1,608.3	4/
WPI (pct)	72.4	1,877.1	n/a	
Exchange rate (intis/$1.00)				
Official (avg)	16.84	128.83	2,261	4/
Parallel (avg)	40.18	314.82	2,978	4/
Balance of Payments and Trade				
Total exports FOB	2,661	2,694	3,550	
Exports to U.S.	814	589	700	
Total imports FOB	3,182	2,750	2,500	
Imports from U.S.	810	793	575	
Aid from U.S. (fiscal yr)	58.0	54.4	n/a	
External public debt	15,373	16,493	17,500	5/
Annual debt service paid	422	158	n/a	
Annual debt service owed	1,685	1,991	n/a	
Gold and forex reserves				
Gross	1471	1,478	2,975	3/
Net	81	-308	644	3/
Balance of payments	-785	-389	688	6/

1/ Central Reserve Bank
2/ estimated
3/ September 30
4/ January-October for 1989
5/ does not include interest arrears
6/ June 30

PERU

1. General Policy Framework

Peru is experiencing hyperinflation, recession, and estrangement from the international financial community as the result of its economic policies. The Garcia Administration continues to resist the coherent policies that could stabilize the economy and put it back on a path of growth.

Fiscal Policy: The Garcia Administration attempted to stimulate the economy through deficit spending when it assumed power in 1985. The deficit has since assumed a life of its own. The issuance of central bank credit and banknotes to cover the deficit has fed inflation. The Government has attempted to maintain real purchasing power and control inflation by holding real public sector wages up, without fully indexing them, while holding down, through subsidies, the prices of a number of consumer goods. Inflation, meanwhile, has eroded the value of government tax receipts. The deficit widens further, and the cycle repeats itself. As is typical with hyperinflation, the economy has fallen into a deep recession characterized by falling consumption, capital flight, and very low levels of private investment. This has a clear negative impact on the market for U.S. exports.

Monetary Policy: The Central Reserve Bank has statutory authority over monetary policy. While independent in theory, it is subject in practice to executive branch control. As the Government has extremely limited access to foreign or domestic credit, it relies on the Bank to issue credit or banknotes to cover the public sector deficit.

2. Exchange Rate Policies

Exchange rate policies are set by the Reserve Bank, in consultation with the Ministry of Economy and Finance. There are currently two exchange rates for the U.S. dollar: the official mercado unico de cambio (MUC) rate, and the parallel free market rate. While the two rates converged briefly in 1989, the Peruvian inti is usually worth more at the MUC rate (approximately 25 percent more at the MUC rate in October 1989, for example). For a variety of reasons, including the supply of dollar bills from the narcotics trade, the parallel rate overvalues the inti considerably in terms of long-term purchasing power parity with the dollar. The MUC rate has for some time been available for imports of items deemed essential.

Under a regulation announced in October 1989, additional items accounting for up to 35 percent of total imports were added to the list of goods eligible for import at the MUC rate. Import shipments over $5,000 in value are subject to prior approval by Peruvian authorities for purposes of opening letters of credit. All else equal, the price competitiveness of U.S. exports, relative to domestically produced products, is significantly enhanced by the overvalued inti. From a broader perspective, however, exchange rate policy is a major feature in the policy mix which has led to inflation, recession, and the decline in the market for U.S. exports.

PERU

3. Structural Policies

Pricing Policies: The state has a long tradition of involvement throughout the Peruvian economy. Many mass consumption items, such as basic grains, milk, fuel, and electricity, are subsidized by the Government through controlled prices for products of state-owned enterprises. These subsidies, in turn, feed the public sector deficit. Despite occasional rescue packages from the central government, a number of state enterprises, such as the electrical utilities and the national petroleum monopoly, are chronically short of cash. As a result, they have been unable to purchase needed capital equipment and spare parts, much of which would be imported from the United States.

Tax Policies: Hyperinflation has devastated tax collection in Peru. By the time income taxes are collected, they are worth relatively little. Petroleum taxes and import duties make up most of the balance. The Ministry of Economy and Finance expects 1989 tax receipts to be approximately 4 percent of GDP. By contrast, tax receipts were around 12.5 percent of GDP in the early 1980s.

Regulatory Policies: The Peruvian Government exercises direct control over foreign exchange availability for import purposes, requires licenses for many imports, and prohibits some imports (see Section 5). Peru also is a member of the Andean Pact. On paper, at least, Peru subscribes to an interventionist approach to regulating foreign investors, the technology they can use, their rights to intellectual property protection, and the inputs they can bring into the country. Peruvian attitudes appear increasingly more favorable toward foreign investment than in previous years; investment in petroleum and gas exploration is now being sought aggressively, and there may be some spillover into other sectors as Peruvians consider ways of rebuilding the economy.

4. Debt Management Policies

Since President Garcia announced a unilateral limitation on foreign debt repayment in 1985, Peru has been at serious odds with its creditors. Government policy is to limit debt repayment to less than the amount of any new credit offered--the "positive net flow" concept--and, in any event, to no more than 10 percent of export earnings. These policies have led to a massive accumulation of payment arrearages. Negotiations with private creditors are on hold pending resolution of Peru's arrearages problem with the IMF. Similarly, all World Bank credits await progress with the IMF. Peru has not progressed substantially in its negotiations with the IMF over a structural reform program, though a new round of talks is underway. Under current circumstances, Peru does not have access to IMF or World Bank financing. Access to private credit is also severely curtailed; Peruvian banks are routinely required to maintain cash collateral with foreign banks against letters of credit issued on behalf of Peruvian importers. Increasingly, American and other foreign banks are agreeing to "debt-for-product" swaps in which the banks agree to accept Peruvian goods in lieu of cash payments.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: Import licenses are required for approximately sixty percent of all items imported. A recent decree allows exceptions for imports valued under $5,000, or $20,000 per importer, through the end of 1989. Over five hundred items are banned outright; these include luxury goods as well as items which compete with locally produced goods, e.g., beer, wine, and cotton textiles.

Standards, Testing, Labeling, and Certification: Goods suitable for the U.S. market will normally pass all Peruvian requirements.

Investment Barriers: Andean Pact guidelines govern foreign investment in Peru. Peruvian law limits foreign currency remittances abroad to 20 percent of registered investment annually, though additional amounts are permitted under certain circumstances. In 1986, a ban was placed on repatriation of profits, dividends, royalties, depreciation and on the servicing of medium- and long-term debt. Exempted from the ban are foreign investments in minerals, oil, gas and in industries specializing in exports to non-Andean Pact countries. The ban has been extended twice, most recently in August 1988. "Strategic industries" are reserved exclusively for Peruvian investment. In most other respects, however, foreign-owned industries are not discriminated against and enjoy the same rights of property ownership as Peruvians. There are indications that attitudes toward foreign investment are becoming more liberal and that new investments may be treated more favorably. For the moment, however, the overall investment climate is very poor as a result of macro-economic and security problems.

Government Procurement Practices: Government procurement is routinely handled via public international tender. Tenders always require that a financing proposal accompany bids and increasingly insist on a countertrade component for larger purchases and projects.

Customs Procedures: Preshipment inspection of import documents and goods is required by law to verify price, quality, quantity, and freight charges. Recently, an exception was created for imports valued at under $5,000 dollars up to a limit of $20,000 per importer. When inspection is complete, a "verification voucher" is issued and must be presented to the Central Bank in order for payment for the import to clear.

Ocean Shipping: Shipping companies without any commercial affiliations to a Peruvian carrier must apply for individual waivers to carry out imports or exports.

PERU

6. Export Subsidies Policies

The Government subsidizes exports of a variety of "non-traditional" products through a tax rebate/bonus scheme called CERTEX. The amount of the bonus varies with the commodity in question. A number of textile items are covered by CERTEX, but cotton and alpaca clothing exported to the United States is specifically exempted from the subsidy.

Clothing exports qualify for a special exception to the exchange rate regime. Clothing exporters may receive 126 percent of the official MUC rate, as of October 1989 roughly equal to the free market rate.

7. Protection of U.S. Intellectual Property

Peru is a member of the World Intellectual Property Organization and is a party to the Universal Copyright and Brussels Satellite Conventions.

The Government acknowledges the need intellectual property protection. Its views, however, differ from those of the U.S. Government on a number of issues. Some of these views can be found within the declarations of the Andean Pact dealing with intellectual property; others are more strictly Peruvian.

Patents: Peru's patent law does not cover a number of items relevant to U.S. exporters, notably pharmaceuticals. Furthermore, Peruvian law requires that inventions be used in Peru or an Andean Pact nation within three years of the patent application to remain effective; compulsory licensing of the invention is available. The term of a patent is five years, renewable for an additional five years upon proof of sufficient use within Peru.

Trademarks: Peruvian trademark protection is for the same term as for patents and, as with patents, trademarks must be used for registration to remain valid. Foreign trademarks to be registered in Peru must not impede the sale or export of previously trademarked products nor require the use of the trademark holder's materials, equipment or personnel for the production of the covered good. Limitations such as import restrictions cannot be used to justify the non-use of a registered trademark. A particular gap in trademark protection involves guarantees for imports of trademarked items from other Andean Pact countries. The trademark holder in Peru may not protest imports by others of an identically trademarked good, even if it is obviously pirated, provided it is brought in from an Andean Pact country. Peru is not a member of the Paris Convention for the Protection of Industrial Property.

Copyrights: Peru grants five year, non-renewable, copyright protection on industrial designs and models not previously introduced. Clothing design may not be copyrighted, and computer software is not explicitly covered. Penalties for infringement are not severe.

New Technologies: There is no evidence that overt piracy and reselling of new technologies, e.g., satellite signals, computer software, bios computer chips, is widespread in Peru.

As matters stand, the only readily apparent commerce in pirated goods involves pharmaceuticals and video cassette rentals.

8. Worker Rights *

a. The Right of Association

The Constitution provides for the right of workers to associate freely and form labor unions without previous authorization. In practice, however, there are legal restrictions on the right to organize and a registration requirement with the Ministry of Labor. Unions may form industry-wide federations which can, in turn, form confederations, all of which can be affiliated with international labor organizations. The Constitution provides for the right to strike "according to law." There is no strike law, but Supreme Executive decrees define some strike behavior. Nearly all strikes in Peru are declared illegal.

b. The Right to Organize and Bargain Collectively

The right to bargain collectively is provided for in the Constitution. By law, employers cannot discriminate against union members or organizers. In practice, however, union activists are sometimes harassed by employers who threaten to fire them, or who pay them off to leave the enterprise. The workers can appeal through the Ministry of Labor or, in case a decision is not accepted by both parties, through the civil courts.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits compulsory labor, and this is respected in practice. In 1987, there were a few reports of escapees from forced labor camps run by the Sendero Luminoso terrorist organization in the jungle. There have also been reports of compulsory labor in remote plantations areas.

d. Minimum Age for Employment of Children

The law prohibits the employment of children under 14. In the formal sector of the economy, the law allows employment of older children in some jobs, for a limited period of time and working a curtailed workweek at full pay. Nevertheless, working children are a common sight throughout the country.

e. Acceptable Conditions of Work

Workers have an 8-hour day and an official 48-hour week for men, and 45 for women. Retirement age is 60 for men and 55 for women. There are government standards for health and safety by industry, but these are rarely enforced either by the employer or the Government (which has no inspectors). Accidents are common, and usually there is no emphasis on prevention. All private sector workers are entitled to 30 days' paid vacation if a minimum set of conditions is met. A minimum wage is set and increased regularly by the government.

f. Rights in Sectors with U.S. Investment

U.S. firms have major investments in the petroleum and mining industries. In the petroleum sector, workers of a U.S. firm did not organize until the Government threatened nationalization. Only field workers are unionized; white collar employees have chosen not to organize. The unions usually involve themselves in issues not related to salaries. The situation is similar in the mining industry except that white collar workers are unionized.

Petroleum sector office employees enjoy a 5-day, 40-hour work week. Field workers have a special schedule of more intense periods of work followed by prolonged periods of rest. Pay is considered very good, and the company has active safety and security training programs.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		348
Total Manufacturing		61
Food & Kindred Products	7	
Chemicals & Allied Products	19	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(*)	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		67
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		476

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

PERU

* Section 8 is an abridged version of Section 6 of the Peru country report included in the Department of State's _Country Reports on Human Rights Practices for 1989_, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

URUGUAY

Key Economic Indicators

(Dollars or Uruguayan new pesos as noted)

	1987	1988	1989 (est) 9/
Income, Production, and Employment			
GDP (mils current $) (10)	7,734	7,944	8,825
Real GDP (mils 1978 pesos) 1/	34,048	34,217	34,559
Real GDP growth rate (pct) 1/	5.9	0.5	1.0
GDP by sector (pct of total) 2/			
Agriculture	11.7	11.9	11.3
Fishing	0.5	0.4	0.3
Manufacturing	22.7	21.7	22.0
Utilities	1.9	2.0	2.0
Construction	2.6	2.6	2.8
Commerce	15.1	15.0	15.1
Transport/warehousing	6.1	6.2	6.3
Communications	0.9	0.9	1.0
Housing	6.8	6.8	6.8
Finan/insur/govt/other svcs	31.7	32.5	32.4
Real per capita GDP ($) 3/ 10/	2,370	2,370	2,400
Size of labor force (mils) 4/	1.320	1.325	1.325
Unemployment rate 5/	9.3	9.1	9.0
Money and Prices			
Money supply (M1) (nominal pct increase end CY) 1/	67.2	63.9	70.0
Commercial interest rates (pct)			
Peso accounts 1/	95.8	101.5	112.0
Dollar accounts 1/	12.2	12.7	16.0
Savings deposits			
Peso accounts 1/	27.8	27.6	27.2
Dollar accounts 1/	4.6	4.6	4.6
Certificates of deposits (180-day)			
Peso accounts 1/	60.8	67.8	70.0
Dollar accounts 1/	5.6	6.0	8.5
Investment rate (pct of GDP) 2/	9.1	9.5	10.0
Consumer price inflation (pct) 5/	57.3	69.0	89.2
Wholesale price inflation (pct) 1/	57.2	60.5	76.9
Exchange rate (interbank floating selling rate) ($1.00 = N$) 1/	281.0	451.0	805.0
Balance of Payments and Trade (mils $)			
Total exports FOB 1/	1,182	1,404	1,560
Exports to U.S. CIF 8/	176	155	180
Total imports CIF 1/	1,142	1,177	1,250
Imports from U.S. CIF 1/	91	93	119
Aid from U.S. 6/	12.1	0.2	0.2
Aid from other countries 7/	10.0	10.0	10.0
Net external debt (mils $) (yr-end) 1/ 11/	2,788	3,166	4,470)
Annual total debt service payment (mils $) 1/ 11/	817	710	900

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	1987	1988	1989 (est) 9/
Gold & forex reserves (mils $) 1/	904	977	1,050
Merchandise trade	102	292	410
Net non-financial services	48	48	150
Net financial services	-281	-306	-360
Current account	-131	34	200
Capital account	176	39	-127
Net international reserves	-45	-73	-73

Sources:

1/ Central Bank of Uruguay
2/ Embassy computation based on Central Bank data
3/ Embassy computation based on Central Bank and Office of Statistics and Census data, population estimated at 3 million in 1989.
4/ Embassy computation based on Office of Statistics and Census data
5/ Office of Statistics and Census
6/ U.S. Agency for International Development
7/ United Nations Development Program
8/ USDOC official data excluding non-monetary gold bullion ($148 million in 1987 and $104 million in 1988).
9/ Embassy estimates
10/ current N$ converted at the average dollar exchange rate for each year
11/ Figures for 1989 are IMF estimates.

1. General Policy Framework

Uruguay has a small, open economy with a population of three million. The historical basis of the economy has been agriculture, particularly livestock production. Agriculture remains extremely important both directly (wool meat, and rice) and indirectly for inputs for other products (textiles and leather). Industry is now the largest sector and has diversified somewhat beyond agro-industry into consumer goods for the domestic market and chemicals. Services have assumed a larger role in the economy in recent years, particularly tourism (Uruguay is the third largest recipient of tourists in Latin America) and financial services, which have taken advantage of the open financial system.

The democratic government which assumed power in 1985 has followed a relatively conservative fiscal policy. This resulted in a decline in the fiscal deficit from 10.1 percent of gross domestic product (GDP) in 1984 to 4.1 percent of GDP in 1987. The percentage rose slightly to 4.5 in 1988 and remained at about that level in 1989. The source of the deficit is large losses by the Central Bank on nonperforming loan portfolios purchased from private banks, an underfunded social security system, and payments on foreign debt. Uruguay is the beneficiary of large inflows of flight capital, mostly from neighboring Argentina, and this has allowed the

Government to finance a substantial portion of its deficit through the issuance of dollar-denominated Treasury bills. Even so, Uruguay has had to expand its money supply substantially to finance the balance and the result has been increasing inflation, now over 80 percent. This, in turn, has had a dampening effect on domestic investment.

In 1987 the Government felt compelled to institute a tighter monetary policy to improve external balance. This had the desired effect of curbing domestic demand and slowing the growth of imports and promoting exports. Fiscal austerity during the last part of 1988 and 1989 has also reduced demand. However, imports from the United States have not been seriously affected and have continued to grow.

2. Exchange Rate Policy

The Uruguayan Government is committed to a floating exchange rate, but intervenes in the exchange market in order to smooth seasonal fluctuations. A recent public forum showed support for this policy from all sectors of the political spectrum. Because of its dominant position in financing international trade and in obtaining the foreign exchange required for public enterprise operations, the state-owned Bank of the Republic of Uruguay is normally the major actor in Uruguay's small foreign exchange market. According to Uruguayan Government officials, the exchange rate will continue to vary in a free and realistic way.

After keeping the peso slightly undervalued vis-a-vis the dollar, the Government in mid-1989 started adjusting the peso to reflect domestic inflation. In this way the Government attempts to keep Uruguayan product prices competitive in its two major regional export markets, Brazil and Argentina. This policy has little, if any, effect on the price competitiveness of U.S. exports, since U.S. products do not generally compete with those from Brazil and Argentina, and because the increase in the peso value of the dollar has lagged slightly behind peso inflation resulting in an effective appreciation of the peso vis-a-vis the dollar.

3. Structural Policies

Government price controls are limited to a small number of basic goods and services for general consumption such as bread, milk, passenger transportation, fuels and utilities. For central government revenues the government relies very heavily on consumption taxes (value-added and excise taxes), which comprise 77 percent of total revenue, and taxes on foreign trade (tariffs and export taxes), which provide 13 percent of total revenue. Tariffs, of course, have some adverse effect on U.S. exports, but are substantially lower than in most developing countries. Imported fertilizers are charged a 21 percent value-added tax which is not charged on locally produced fertilizers.

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4. Debt Management Policies

Uruguay is a heavily indebted, middle-income developing country. As of March 1989, its total external debt was $4.470 billion ($3.62 billion public sector debt and approximately $850 million private sector). Of this total, about $2 billion is owed to foreign commercial banks ($582 million to U.S.-owned banks). Total debt service in 1988 was $709 million, equivalent to 50.5 percent of total merchandise exports; 37.8 percent of merchandise exports and service exports, and 8.9 percent of GDP.

Uruguay has always sought cooperative solutions to its debt problem, and never defaulted, preferring instead to reach agreements with its creditors. The Uruguayan Government is currently negotiating with its commercial bank creditors for inclusion in the Brady initiative. Uruguay is presently under "enhanced surveillance" by the International Monetary Fund (IMF) and is planning to negotiate a stand-by arrangement with the IMF.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: Certain imports require special licenses or customs documents. Among them are drugs, certain medical equipment and chemicals, radioactive materials, fertilizers, vegetable materials, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat, firearms and vehicles. Uruguay's Rural Association charges a fee of about $1.20 for each dose of semen imported. This fee is also accompanied by import restrictions based on the number of registered animals in Uruguay, applied mainly to protect the local livestock industry. The import of frozen embryos also must meet complicated animal health requirements. Imported seeds must meet sanitary and "desirability" tests which may take up to three years to be performed. In the case of automobiles, an import tariff of 40 percent and the enforcement of local content laws make the final price of a vehicle to the consumer very high.

Services Barriers: U.S. banks, which have largely withdrawn from retail banking in Uruguay, have attributed that withdrawal to the dominance of retail banking by the Bank of the Republic of Uruguay. The Uruguayan Government retains a legal monopoly in most aspects of the insurance industry. The State Insurance Bank (BSE) began monopolizing insurance in a number of risk areas in 1928, and is by law the only insurer of major risk areas such as automobile, theft, and workers' compensation. Legislation is pending before the Uruguayan Congress to eliminate the state monopoly on third-party automobile liability insurance, and the legislation stands a good chance of passage in 1990. There are no significant official barriers to legal services by foreign individuals or firms in Uruguay. However, the Uruguayan legal system is modeled after the Napoleonic Code rather than English common law, and, therefore, it is more difficult for U.S. lawyers to meet the licensing requirements.

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Similarly, there are no significant restrictions on ticketing and travel services. The government-owned airline, PLUNA, has a monopoly of groundhandling, which prevents U.S. carriers from selfhandling or selling services to other airlines. With respect to air freight services, Uruguayan importers are required to pay a four percent ad valorem tax on all freight arriving via foreign-registered airlines. Freight which arrives by the state-owned airline is exempt from the tax. A new civil aviation agreement between Uruguay and the United States provides for equal treatment between U.S. and Uruguayan air freight carriers. The agreement will take effect upon approval by the Government of Uruguay.

Investment Barriers: The Uruguayan Government currently imposes performance requirements in only one industry. Local content and export requirements are imposed on manufacturers of cars, trucks and farm tractors. For automobile assemblers, local content must be at least 25 percent, based on a formula that takes into account the value and weight of each assembled unit and that of the separate components. This percentage may be lowered to as little as 20 percent, providing the cost--in terms of exports--of each percentage reduction is offset by a 2 percent increase in export earnings. Effective April 18, 1985, the export requirement on automobile assemblers was increased to 50 percent of the FOB value of their imports, and for imported finished vehicles 70 percent. The local content requirement for trucks is 8 percent; and the export requirement is 10 percent of FOB import value.

Local content and export requirements have posed problems for investors. Locally-produced automotive parts, e.g., batteries, tires, jacks, mufflers, exhaust pipes, leather and vinyl seats, windshields, glass accessories, are often more expensive than imported parts.

There are limitations on foreign equity participation in a number of important sectors of the Uruguayan economy. Foreign investment in certain activities deemed strategic for the country's development require authorization from the Government. The sectors affected include: electricity, hydrocarbons, basic petrochemicals, atomic energy, exploitation of strategic minerals, banking and finance, railroads, telecommunications, radio, television, press and those activities entrusted by law to government-owned enterprises. Such authorization is readily granted in mining, hydrocarbons, and banking and finance. Uruguay has long owned and operated state monopolies in a number of key areas in which by law foreign equity participation is prohibited. The state monopoly, UTE, controls all electrical production and distribution in Uruguay. The state-owned oil company, ANCAP, is the only importer, refiner and distributor of oil and gas products in the country (although the retail gasoline industry was recently completely privatized). All freight shipment by rail in Uruguay is controlled by the state railroad, AFE. The state telephone company, ANTEL, controls the telephone and telecommunications industry.

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All Uruguayan ports are operated by and administered through the national port administration, ANP. The state enterprise, OSE, controls all water and sewage services in Uruguay. Foreign equity participation is also prohibited in the state-owned airline PLUNA. Leading presidential candidates in the November national elections in Uruguay proposed the privatization of several of the state enterprises in 1990, including ANP, ANTEL, and PLUNA.

Government Procurement: Government procurement practices are well defined and strictly followed. In general, tenders are open to all bidders, foreign or domestic. A government decree, however, establishes that in equal conditions of quality or adequacy to the function, domestic products will have preference over foreign ones. Among the foreign bidders, preference will be given to those who offer to purchase Uruguayan products. The Government favors local bidders even if their price is up to 40 percent higher than that of equivalent foreign bidders. An exception to this rule applies on contracts financed by international credit agencies such as the Inter-American Development Bank and World Bank which do not allow for a preference higher than 15 percent on local goods and services. Since most major projects in Uruguay have such funding, this exception becomes the rule in most projects of interest to U.S. suppliers or contractors.

Customs Procedures: Since 1970, tariffs have been reduced and quotas and other existing barriers eliminated. The tariff structure has been simplified and now varies between 10 and 40 percent. The only exceptions to tariff regulations, in the context of anti-dumping legislation, are the reference prices and minimum export prices, fixed in relation to international levels and in line with the commitments assumed by the country under the GATT. These are applied to neutralize unfair trade practices which may threaten to cause serious damage to national production activity, or significantly delay the development of such activity, and are aimed primarily towards Brazil and Argentina.

6. Export Subsidies Policies

The Government of Uruguay does not currently provide any export subsidies. Uruguay is a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Uruguay is a party to the Berne and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property.

The Uruguayan Government thus recognizes intellectual property rights in a number of areas, and there is no discrimination against foreign companies or individuals seeking to register in Uruguay for protection of their intellectual property rights. Uruguay generally has sufficient laws to protect and enforce most intellectual property rights other than in new technology. However, government enforcement of these laws is weak in certain areas such as software protection, due to the fact that little of the domestic industry relies on intellectual property protection. The Uruguayan Government has been generally supportive of efforts to strengthen the rules governing protection in the international fora such as the World Intellectual Property Organization and the Uruguay Round of the GATT.

The Uruguayan Government does not discriminate between foreign and domestic holders of patents. The owners and assignees of foreign patents may obtain confirmation of patents in Uruguay, provided application is made within three years of registration in the country of origin. The confirmed patents are protected for a period of ten years, less the period of protection already enjoyed in the country of origin. Exclusions from patent protection include pharmaceuticals and chemical compounds. Compulsory licensing is practiced by the Uruguayan Government but is available under Uruguayan law. The patent holder may use the patent directly or grant licenses for its use through the payment of royalties. The Government plays no role in determining royalty policy between firms, and Uruguayan legislation permits technology transfer.

Foreign trademarks may be registered in Uruguay and receive the same treatment as domestic trademarks. Protection is afforded to the registrant for ten years, with subsequent 10-year extensions renewable indefinitely.

Uruguay currently affords copyright protection to, inter alia, books, records, videos and computer software. The Uruguayan Government extended copyright protection to computer software in April 1989 and computer programs are now registerable as intellectual works, including successive versions of derivative programs. Uruguay plans to sign before the end of 1989 the WIPO Treaty on the International Registration of Audio Visual Works. Despite the legal protection, enforcement of copyright protection vis-a-vis computer software is weak, and pirating of software in Uruguay is substantial. Pirating is typically done by vendors of computer hardware who offer pirated software at no charge to customers as an inducement to purchase. There is also substantial pirating in the cassette and record industry; however, most of the pirating allegedly originates in Paraguay and the Government is more active in enforcement due to the strong lobbying influence of the local industry.

With the exception of software, infringement of new technology is not a problem since the market is either small or nonexistent in Uruguay. Uruguay is currently participating in the WIPO negotiations for a multilateral Treaty on Integrated Circuits. Given the relatively low level of economic activity involving intellectual property protection in Uruguay, with few exceptions the impact of Uruguay's intellectual property practices on U.S. trade is minor.

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Losses to U.S. firms are difficult to estimate; however, with respect to the computer software industry, the local Uruguayan Chamber of Software estimates losses from pirating to U.S. companies at $10 million.

8. Worker Rights *

a. The Right of Association

The Constitution provides for the right of workers organize freely and to join unions; these rights are protected in practice. The membership elects its leaders free of government controls. This protection extends to all workers, including employees of foreign-owned enterprises.

b. The Right to Organize and Bargain Collectively

The right to organize unions is constitutionally guaranteed; the right to bargain collectively is protected in law and in practice. Discrimination by employers, including arbitrary dismissal, for union activities is prohibited. Industrial contracts are generally negotiated on a sector-wide, rather than plant-by-plant, basis.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited.

d. Minimum Age for Employment of Children

The minimum working age is 15, with some exceptions in family businesses. Children usually are employed in the informal sector or agriculture.

e. Acceptable Conditions of Work

There is a legislated minimum wage; wages within the manufacturing sector, including U.S. companies, are well above the minimum. The standard work week is 48 hours. Health and safety conditions in U.S.-owned plants are as good or better as in other similar enterprises.

f. Rights in Sectors with U.S. Investment

The level of U.S. investment in Uruguay is relatively small. Worker rights conditions are equally applicable to all sectors where U.S. capital is invested (chemicals and related products, primary and fabricated metals, machinery, transportation equipment, and wholesale trade).

There is no evidence of attempts to evade Uruguayan standards for minimum wage, hours of work, or occupational safety and health by U.S. firms or firms with substantial U.S. investment. In general, U.S. investment in Uruguay is in industries paying above the minimum wage. Safety and health standards in firms with U.S. investment generally exceed the norm.

URUGUAY

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		81
Food & Kindred Products	61	
Chemicals & Allied Products	14	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	4	
Electric & Electronic Equipment	0	
Transportation Equipment	-2	
Other Manufacturing	2	
Wholesale Trade		8
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Uruguay country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

VENEZUELA

Key Economic Indicators

(Billions of bolivars (Bs) unless otherwise noted)

		1987		1988		1989 1/
Income, Production, and Employment						
National income (curr Bs)	1/	592.5		752.9		n/a
GDP production 2/ (1984 current prices)		456.6		482.7		n/a
Total labor force		6,321,566		6,572,049		n/a
Employment (1st half yr)		5,785,402		6,116,615		n/a
Unemployment (1st half yr)		8.5		6.9		8.9
GDP growth rate (pct)		3.2		5.7		n/a
Manufacturing		68.5		71.0		n/a
Agriculture		26.3		27.4		n/a
GDP per capita		19,008	3/	19,570		n/a
Money and Prices						
Money supply (M1)		129.1	2/	156.7		144.8
Comm interest rate (pct)		12.6		12.7		42.0
Savings rate		10.0		10.0		n/a
Investment rate		13.0		13.0		n/a
Consumer price index		40.3		35.5		75.5
Exchange rate						
Official		14.4925		14.4925		42.98
Parallel		28.00		36.80		42.98
Balance of Payments and Trade						
Exports (c) (includes oil)		11.00		10.1		n/a
Imports (c)		8.7		10.8	5/	4.6
Imports from U.S. 4/		3.8		4.6		n/a
pct of total		43.7		42.1		n/a
Aid from U.S.		0		0		0
Aid from other countries		n/a		n/a		n/a
Foreign investment 4/		1.8		2.1		n/a
External public debt		25.4	4/	25.5		n/a
Annual debt service		4.7	4/	4.8		n/a
International reserves		9.9		7.1		6.6
Balance of payments ($bb)		(1.1)	4/	(4.4)		n/a

1/ 1989 figures to October 31.
2/ billion bolivars
3/ bolivars
4/ billion dollars
5/ July 31, 1989 (deficit)

Source: Banco Central de Venezuela, Superintendent for Foreign Investment, and Foreign Trade Institute.

VENEZUELA

1. General Policy Framework

Venezuela, a multi-party democracy with a bicameral legislature, is a major oil producer/exporter and a founding member of OPEC. After nearly three decades of relative economic and political stability, it has a moderately well established economic infrastructure, and an impressive potential for economic growth. Major resources include petroleum, natural gas, hydro-electric power, iron ore, coal and bauxite. Venezuela is in the process of modifying its macro-economic model and economic policies to diversify from dependence on petroleum exports (though the petroleum sector still dominates the economy) and to develop non-traditional export industries such as petro-chemicals, mining (gold, iron ore, bauxite, and coal), aluminum, iron and steel, cement, manufacturing, forestry, and consumer products.

To this end, Venezuela encourages foreign investment in export-oriented sectors. The United States is, far and away, Venezuela's chief trading partner, accounting in 1988 for 51.7 percent of Venezuelan exports and 42.1 percent of its imports. The bulk of foreign investment is also from the United States. Venezuela hopes to enter the GATT in 1990.

In 1989, the Government of Venezuela took steps to reduce the fiscal deficit which had reached nearly eight percent of GDP, a record for Venezuela, in the final year of the Lusinchi Administration. Fiscal income was increased by a devaluation of 170 percent of the bolivar (Bs-the national currency), increased prices on public goods and services and stepped up collections of import duties. Real expenditures were checked by below inflation salary adjustments for public employees, and sharp reductions in subsidies and capital investments. These measures reduced the 1989 fiscal deficit to 3.5 to 4.0 percent of GDP. The goal in 1990 is to reach fiscal equilibrium. The 1989 budget was financed largely through the issuance of public bonds and a drawdown of treasury reserves. In contrast, the 1990 fiscal deficit will be largely financed by external borrowing, principally from the World Bank. Most of the 1989 fiscal deficit is the result of the exchange losses incurred by the Central Bank of Venezuela (BCV) in guaranteeing the official exchange rate for about 50 percent of the outstanding trade finance in place when the exchange rate was unified (March 1989).

The Central Bank pursues its monetary policies primarily through reserve requirements, rediscounting and open market operations, and periodic adjustments of minimum and maximum interest rates. Monetary policy in 1989 was very tight as a means to offset unprecedented inflationary pressures stemming from the March currency devaluation, the elimination of many price controls and subsidies, and the continuation of a significant but declining fiscal deficit. Inflation in 1989 reached 81 percent on a year-end basis, or twice the highest previously recorded rate. The BCV's periodic adjustment of domestic interest rates is designed to maintain positive domestic interest rates thereby encouraging domestic savings, lowering credit demands and attracting capital repatriation.

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2. Exchange Rate Policies

On March 14, 1989, the Government abolished its multiple exchange rate system and substituted a unified exchange rate at the prevailing free market rate (Bs 39/$1.00). In effect, this move represented a 170 percent devaluation of the official Bs 14.50/$1.00 exchange rate. One of the impacts of the bolivar's devaluation has been a dramatic drop in imports from Venezuela's major trading partners including the United States. The Government has stated that the exchange rate is flexible and will move in accordance with market forces. In reality, the exchange rate during the first ten months of the new exchange regime has been markedly stable, trading in the Bs 37 to 38 (to $1.00) range. The rate moved above Bs 40 in November 1989. There are no foreign exchange controls, except limits on profit and royalty remittances of foreign investment.

3. Structural Policies

Pricing Policies: In a major shift of longstanding practice, the Perez Administration dismantled price controls on most goods and services. Price controls remain in effect on a "basic basket" of 17 goods and services considered of primary necessity. Government producer subsidies have also been reduced. The Government has attempted to reach voluntary price increase agreements with producer groups on politically sensitive items such as pharmaceuticals and food products.

Tax Policies: In June 1989, the Government initiated a multi-year trade liberalization program. Maximum tariff rates have been reduced in 1989 from 130 to 80 percent, and are scheduled to be reduced to 50 percent in 1990, 40 percent in 1991, 30 percent in 1992 and 20 percent in 1993. Customs duty collections, however, are expected to increase because of virtual elimination of tariff exemptions and exonerations. The Government intends to introduce a major tax reform which is designed to lower tax rates, but increase revenues by reducing widespread tax evasion. Moreover, the Government intends (with Congressional approval) to introduce a value-added tax in late 1990. Foreign corporations operating in Venezuela receive the same tax treatment as Venezuelan firms. In order to stimulate the formation of a "maquiladora" export industry, the Government recently eliminated taxes and duties on imported goods used in the production of exports. Non-residents pay a 10 percent tax on hotel rooms and lodging.

Regulatory Policies: The Government's regime for managing imports through licenses changed dramatically in 1989. Import licenses are still required but for a smaller number of items than before. Objectives of licensing are to control imports of strategic items or to conserve scarce foreign exchange. Where necessary, import licenses are granted routinely for essential machinery and raw materials. Price controls now apply only to some basic goods and to a small number of services considered necessary to the public well-being, including some pharmaceuticals and food products. Preshipment inspection is no longer required for imported items.

VENEZUELA

4. Debt Management Policies

Venezuela's external debt totals approximately 30 billion dollars or 60 percent of GDP, 85 percent of which is owed to commercial banks. About one third of Venezuela's external debt is held by U.S. banks. Debt service in 1988 according to official figures totaled $4.8 billion or 47 percent of total exports. With the advent of the Perez Administration in February 1989, the Government has dramatically altered its debt management policies. The Government has initiated an unprecedented three-year ($5 billion) extended finance facility with the International Monetary Fund and a major multi-year borrowing program with the World Bank. Stepped up borrowing from the Inter-American Development Bank is also contemplated. Venezuela has not had a Paris Club rescheduling and does not intend to seek one. The Government has initiated a debt-equity swap program with conversions limited to $600 million per year.

While the Government has initiated dramatically closer relations with the multilateral financial institutions, its relationship with creditor banks has been strained. Principal payments to the commercial banks in 1989 have been suspended and mounting interest arrearages continue to be a sore point. After months of negotiation, a $600 million interim financial package was arranged in late September. Instead of concentrating on receiving major infusions of new money from the commercial banks, the Government is focusing at present on significant debt reduction within the context of the Brady Plan. Intensive debt negotiations are currently underway.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: Under the economic reform program import license requirements have been significantly reduced. Virtually all protectionist licenses have been eliminated. Licenses are still required for some luxury items (such as caviar); imports of these goods are restricted to preserve scarce foreign exchange. Licenses are required for the importation of arms and munitions which are of strategic importance, and for some finished pharmaceutical products and animal feed which may have medicinal properties. Presidential Decree 1200 and Andean Pact Decision 24/220 regulate licenses for technology transfers. The maximum term for a technology agreement is 15 years (renewable).

Services Barriers: Venezuelan service barriers that restrict U.S. exports of services are found in banking and insurance (financial services), advertising, consulting (management and technical services), and communications/ entertainment/information/ media. Andean Pact Decision 24 and national implementing legislation limit foreign equity participation in the above to 20 percent. In some other sectors, barriers to service exports are modest and limited.

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Standards, Testing, Labeling and Certification: The Ministry of Health sets standards for preserving animal foodstuffs and vegetable foods to be served to children. Otherwise, COVENIN (the Venezuelan Committee for Industrial Standards) usually adopts the standards of the country of origin. General requirements exist for information which must be included on the labels of imported goods. Instructions, promotional literature, catalogs, technical manuals, and warranties should be in Spanish. The Venezuelan wine labeling system limits variance in alcohol content to 0.5 percent.

Investment Barriers: On January 26, 1990, the Venezuelan Government published new foreign investment regulations which substantially liberalize the rules of Decree 1200 of 1986. The changes eliminate barriers to dividend and capital repatriation, and to stock purchases by foreigners on Venezuelan stock exchanges and reduce government paperwork for new businesses to enter the Venezuelan market. Specifically, the Superintendency for Foreign Investment (SIEX) no longer requires approval of the formation of new foreign-controlled companies. Similarly, SIEX no longer exercises approval/disapproval of the establishment of foreign company branches in Venezuela. Inter-company royalty payments are subject to ceilings.

National Treatment: There are no limits on foreign ownership of investment in sectors such as electronics, informatics, biotechnology, agriculture, agrobusiness, tourism, and low-cost construction. Foreign firms that enter into joint ventures with state enterprises, and firms that export at least 80 percent of their production with local content of at least 50 percent are also exempt from ownership restrictions. Under Andean Pact Decision 220, divestiture requirements have been removed from foreign investment regulations. Investors are permitted to remit annually a percentage of their registered investment equal to the LIBOR rate plus 20 percent, net of all Venezuelan taxes. Royalty payments are limited by the Andean Pact to three percent. Both foreign and Venezuelan companies are obliged to limit the number of foreign national employees to 25 percent of their total staff, and the remuneration paid to foreigners cannot exceed 25 percent of the total paid to all company employees. The automotive sector, which includes investors from various countries, has been asked to adhere to a schedule of progressively higher local content and export performance requirements. There may be some flexibility in interpretation of these regulations.

Government Procurement Policies: The "buy Venezuelan" regulation, updated by Presidential Decree 1.182 (July 1986) requires government entities to purchase most goods and services from Venezuelan sources if they are available locally, provided they meet standards of price, quality, and timeliness. Imports related to national security/defense and those subject to international agreements are exempt from this decree. Private sector companies are not bound by this regulation. Imported turnkey projects are discouraged by a requirement for maximum domestic content.

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The "Registry of National Technology and Industrial Capacity" (Ministry of Development) rules on the local availability of goods and services. Ministries and Government agencies typically make their own purchases. Under Government procurement regulations, supplier preference must be granted in the following order of priority: domestic manufacturers, domestic distributors of foreign-made products, agents of foreign manufacturers, and foreign manufacturers. By Presidential decree, purchases of goods valued at over Bs 1 million must be by open bid, although this may be restricted to local suppliers and registered representatives. Purchases between Bs 250,000 and Bs 1 million may be by closed (invitational) tender unless open bidding is preferred. For amounts under Bs 250,000 direct purchasing is allowed. On construction services direct awards may be made for contracts up to Bs 5 million. Open or closed tenders are possible for contracts from Bs 5 to 10 million. The open bidding process must be used above the Bs 10 million level, although the process can be declared void in the "national interest."

Customs Procedures: Import licenses are required for goods for which the Government has claimed exclusive import rights for public health, austerity, or national defense reasons.

Ocean Shipping: Half of all general imports and exports must be shipped on Venezuelan vessels. National and local government agencies, companies under full or partial state ownership, and private companies receiving government credits must make all of their shipments on Venezuelan ships.

6. Export Subsidies Policies

Recent U.S. countervailing duty investigations have determined that in the case of certain specific products, some Venezuelan Government programs--which included preferential input pricing, short-term FINEXPO (the Central Bank Export Financing Agency) financing, interest-free loans, and corporate tax dispensations--effectively conferred subsidies on these products. Exporters can apply for an optional export bonus, to assist in entering overseas markets. Currently at 30 to 35 percent, it is scheduled to be phased out beginning March 1990 with a planned first reduction to 20 percent at that time.

7. Protection of U.S. Intellectual Property

Venezuela is an active member of the World Intellectual Property Organization, and is also a signatory to the Berne Copyright Convention. Venezuela is not a member of the Paris Convention on the Protection of Industrial Property.

Venezuelan law and regulations make a distinction between intellectual property (copyrights) and industrial property (patents and trademarks). National policy is influenced strongly by a traditional concern for protecting national industries and firms, regional attitudes and obligations (i.e., within the Andean Pact), and limiting the growth of foreign monopolies in patentable and trademarked products. However, significant changes are taking place in Venezuela's intellectual property rights regime that may benefit U.S. and other foreign firms by enhancing intellectual property protection.

In 1988 the legislature approved at the Committee level an updated Rights of Authorship Law (copyrights) which will bring local copyright standards closer to international practice. There is no explicit computer software protection in this law, but such products can and have been copyrighted and those rights can be enforced in Venezuela. Problems once experienced by U.S. motion picture companies regarding unlicensed copying and selling of U.S. films and video cassettes have been resolved for the most part. Copyright problems are generally more related to enforcement, rather than with the law as enacted.

The Economic Cabinet has before it a new proposal to strengthen the Industrial Property Law of 1961, to improve protection for patents and trademarks. Trademark registration fees are relatively low, but product owners must be sure to register their trademarks in all appropriate categories to ensure the widest possible protection. Trademark protection is based upon registration and use in Venezuela; the first person to register a mark obtains the right to it. As a result, cases have occurred where well-known U.S. and foreign trademarks have been misappropriated and local counterfeit products have appeared on the market. Trademark protection expires if it is not used within two years.

The current patent term is 5 to 10 years with the right to renew indefinitely for a similar period of time. The patent must be worked within two years after being granted or it may be subject to cancellation. Importation does not satisfy the working requirement. According to Venezuelan law there is no protection at this time for processed foods, pharmaceuticals, chemical preparations, nor for plants or microorganisms.

Venezuela was placed on the U.S. Trade Representative's "Watch List" as a result of an assessment required by Section 301 of the 1988 Omnibus Trade and Competitiveness Act. Bilateral consultations took place in August 1989 in Caracas, where the U.S. delegation expressed its concerns about the proposed legislation in an effort to ensure adequate and effective intellectual property rights protection. Local authorities believe that the new intellectual property rights regime could pass the Congress sometime in 1990, and result in stronger national and foreign intellectual property rights.

Although some patent and trademark infringement takes place in Venezuela, there is no basis for determining the dollar volume of the losses or potential losses due to counterfeiting and piracy.

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8. Worker Rights *

a. The Right of Association

Both Venezuela's Constitution and its Labor Law recognize and encourage unions' right to exist. There are no restrictions in practice in either the public or private sectors (except for the armed forces). The Government has a positive attitude toward unions, which are a powerful and respected participant in society. A major union confederation, the Venezuelan Confederation of Workers, three small confederations, and a number of independent unions operate freely. There are no restrictions on affiliation or activism in international labor organizations.

b. The Right to Organize and Bargain Collectively

The Labor Law specifically states that workers will be free from all "interferences, prohibitions, subordinations and coercions" in the exercise of their rights to form unions and elect officials. The Law also proclaims that it is the duty of unions [illegible] negotiate for a collective contract, and it also protects employees who engage in union activities from reprisals by employers. Venezuelan law encourages collective bargaining, which is widely practiced. There are no export processing zones in Venezuela. Labor law is enforced by Ministry of Labor Inspectors, tripartite (labor/management/government) Commissions, and Labor Courts.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in Venezuela. Unremunerated labor is prohibited by law.

d. Minimum Age for Employment of Children

Venezuelan law prohibits the following: employment of children under 14; a workday of more than 6 hours for 14- and 15-year olds; night or hazardous work for those under 18. This legislation is enforced in the formal sector of the economy, but the informal sector is much more difficult to regulate. Worsening economic conditions are probably pushing more workers into the informal sector, including children.

e. Acceptable Conditions of Work

The minimum wage for new hires in the urban sector is about $105 monthly, plus mandatory fringe benefits that vary but in general would increase wages by about one-third. The agricultural minimum wage is lower, approximately $68 monthly. By law, the workweek for blue-collar workers may not exceed 48 hours plus two hours daily overtime or a maximum of 200 hours overtime per year. The maximum legal workweek for white-collar workers is 44 hours. Employees must be given a rest period of at least half an hour after five hours of work. The law is generally observed with the exception of restrictions on overtime. Paid holidays and weekly rest days are also provided by law. A health and safety law was passed in 1986, but its enforcement awaits the development of standards and issuance of implementing regulations.

f. Rights in Sectors with U.S. Investment

The major goods-producing sectors in which U.S. investment is found are food and related products, electric and electronic equipment, and transportation equipment (automotive equipment and tires). In none of these sectors do worker rights differ significantly from Venezuela's national norms. U.S. investment in Venezuela creates relatively large firms, and such companies invariably fall under strong union scrutiny. Non-unionized employees are also very conscious of their legal rights and staunchly defend them.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		634
Total Manufacturing		1,141
Food & Kindred Products	231	
Chemicals & Allied Products	205	
Metals, Primary & Fabricated	95	
Machinery, except Electrical	-8	
Electric & Electronic Equipment	94	
Transportation Equipment	161	
Other Manufacturing	362	
Wholesale Trade		285
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,060

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Venezuela country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions of Australian dollars (A$) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, and Employment			
Real GDP	234,574	247,200	255,800
GDP growth rate (pct)	4.1	3.5	3.5
GDP by sector (pct)			
Manufacturing	15.6	17.4	19.4
Agriculture	3.8	3.8	3.8
Services and other	80.6	78.8	76.8
Real per capita income	14,137	14,458	15,317
Labor force (1,000s)	7,854	8,087	8,350
Unemployment rate (pct)	7.8	6.9	7.5
Money and Prices			
Money supply (M1)	29,877	34,711	40,260
Comm'l intst rates (prime) (pct)	15.98	15.50	18.75
Savings ratio	6.7	6.6	6.3
Foreign investment (12-mos)	181,260	199,731	235,683
Consumer price index (June 1981 = 100)	168.7	186.2	201.1
Wholesale price index	n/a	n/a	n/a
Exchange rate (A$/U.S. cents)	70.1	81.0	76.0
Balance of Payments and Trade			
Total exports FOB	37,944	42,250	45,000
Exports to U.S.	4,320	4,509	4,800
Total imports FOB	38,502	42,414	47,080
Imports from U.S.	8,171	9,097	10,100
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
Gross external public debt	32,253	30,000	33,700
Annual public debt service (paid)	7,895	7,420	6,678
Gold and forex reserves	12,607	16,925	21,000
Balance of payments (mils) on current account	-12,439	-13,900	-21,500

1. General Policy Framework

Australia's economy boasts a gross domestic product of $253 billion with real annual growth of about 3.5 percent. Although in area it is the size of the continental United States, Australia's production capability is limited by a small domestic market of 16.7 million people. In Australian fiscal year (AFY) 1988/89 (ending June 30), manufacturing accounted for 17.4 percent of GDP, farming 3.8 percent, and services and other non-farm production 78.8 percent. Primary agricultural and mineral products account for 67.9 percent of exports. Australia leads the world in wool production, is a significant supplier of wheat, barley, dairy products, meat, sugar, and fruit, and a leading exporter of coal, minerals and metals, particularly iron ore, gold, alumina, and aluminum.

To increase Australia's international competitiveness, the Government has continued to reduce protective trade barriers and deregulate large segments of the economy, achieving the most notable success with the steel industry, which became totally deregulated on December 31, 1988. Trade reforms begun in June 1988 have resulted in an end to import quotas on all but three product categories (textiles, clothing, and footwear) and lower tariffs on most imports. In its AFY 1989/90 budget, the Government announced expiration dates for bounty subsidies to those exporting industries still receiving such assistance. The 20 percent preference given by the federal government to Australian and New Zealand firms bidding on government contracts was abolished November 1, 1989, although some state and territory governments continue to apply preferences.

Australia's economic outlook is good, although high interest rates have hurt some sectors. Home purchases and construction projects contracted significantly in 1989, but commercial construction remains strong. Unemployment dropped to 5.9 percent in 1989, but a modest decrease in help-wanted advertising appeared in the third quarter of the year reflecting the impact of interest rates that exceed 20 percent. Nonetheless, retail sales remain good and export prices, even if below their highs, remain above historical averages.

The economy, however, has significant weaknesses. The current account deficit exceeds 7.2 percent of gross domestic product (GDP) and 41.8 percent of exports. Inflation at 8.0 percent is the highest of the OECD countries. Despite the high interest offered on bank deposits, savings remain low, partly as a result of mortgage rates that exceed 18 percent. The Government is expected to maintain its tight monetary policy into 1990 in order to cool the economy and slow import demand. High real interest rates, however, attract foreign money, which strengthens the Australian dollar--increasing, rather than dampening, the demand for imports. Only Reserve Bank of Australia intervention in the money market has kept the Australian dollar from exceeding 79 U.S. cents. The tight money policy is also offset to some extent by a shortage of skilled workers and managers, which exerts upward pressure on wage rates. The recent pilots' dispute, of over three months' duration, is the longest major labor walkout in Australia's history. The dispute has cost Australia's tourist industry hundreds of millions of dollars. Australia's economic strength clearly depends on sustained overseas demand for tourism and key commodity exports.

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Fiscal Policy: For the second consecutive year, the Government has recorded a revenue surplus, leading it to announce personal tax reductions averaging about 6 percent for AFY 1989/90. Public sector borrowing has been reduced to zero, callable public debt is being retired, and the Government is considering a negative bond issue--offering a premium to holders who turn in outstanding bonds before maturity.

Investment Stimulation: Private investment is stimulated through a variety of government programs. Firms operating in Australia can qualify for some or all of the following:

- tax breaks and bounties for certain exports (although many are due to expire in AFY89/90);

- tax incentives for research and development and export programs;

- some energy and labor subsidies;

- local government investment and location incentives; and

- some types of trade protection (although diminishing).

Once established in Australia, foreign firms receive national treatment (see Section 5).

Australia has few legal disincentives to investment. Among these are local content requirements for cigarette production, fruit juices, automobiles and foreign television commercials. Most investors find Australia's labor laws more protective than in other countries, especially restrictions affecting assignments of non-Australians to positions in foreign-owned firms. Because of skill and managerial shortages, these restrictions were liberalized in early 1989 for firms meeting offset obligations. The industrial relations climate is also a major investment consideration. Wages are established annually through a tripartite national bargaining and arbitration mechanism involving representatives of the unions, business management, and government. Individual investor influence in this process is limited.

Monetary Policy: In Australia, banks maintain required reserve levels based on deposits of the previous month. These special accounts, equal to one percent of a bank's assets and called statutory reserve deposit accounts, must be maintained with the Reserve Bank of Australia and earn a below-market rate of interest. For check clearing purposes, banks must also maintain an exchange-settlement account balance that cannot be negative at the end of each day.

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The cash money supply is normally controlled through an open market trading system of nine dealers who act as a conduit between the Reserve Bank and the financial system. Transactions may involve purchases, sales, or trade in repurchase agreements of short-term Treasury securities. If liquidity conditions warrant, the Reserve Bank may bypass dealers and buy short-term Treasury notes direct from banks on a cash basis. Banks do not normally hold liquid deposits of any size with the Reserve Bank. Instead, they hold call-funds with the dealers. If a bank needs cash on a given day, it either borrows from other banks or withdraws funds it has on deposit with the authorized dealers.

Under this money supply control system, foreign exchange flows and government deficits and credits have only limited impact on the money supply. Expansion of the money supply to accommodate national wage awards, tax reductions and subsidies to parastatals and private manufacturers appear to underlie most of Australia's comparatively high inflation rate.

2. Exchange Rate Policies

Australian dollar exchange rates are determined by international currency markets. Official policy is not to defend any particular exchange rate level. In practice, however, the Reserve Bank is active in "smoothing and testing" foreign exchange rates in order to provide a generally stable environment for fundamental economic adjustment policies.

Australia does not have any major foreign exchange controls beyond requiring Reserve Bank approval if more than A$5,000 in cash is to be taken out of Australia at one time, or A$50,000 in any form in one year. The purpose is to control tax evasion and money laundering. If the Reserve Bank is satisfied that there are no liens against the money, authorization to take large sums out of the country is virtually automatic.

3. Structural Policies

Convinced that the response by investors to new business opportunities created by economic reforms has been too slow, the Australian Government has begun to focus on industry-by-industry, microeconomic changes designed to compel businesses to become more competitive. The strategy has three principal premises: protection must be reduced; the pace of reform needs to be accelerated; and industry needs to be less preoccupied about receiving protection.

Accordingly, the two percent revenue duty on imports was abolished on July 1, 1988. In addition, a program to phase tariffs down an average of about 20 percent was begun July 1, 1988, to be completed on June 30, 1992. Specifically, in approximately equal phases, except for textiles, clothing, footwear, and some motor vehicles, all tariffs above 15 percent will be reduced to 15 percent, and those with rates above 10 percent, but less than 15 percent, will be reduced to 10 percent. U.S. exports will benefit from these reductions. However, only a small percentage of Australian tariffs are bound.

Other 1989 policy changes removed tariffs on computer software and cast-coated paper and paperboard, and abolished the 20 percent preference advantage on federal government procurement contracts for Australian and New Zealand businesses. On March 1, a program was begun to phase out quotas for textiles, clothing and footwear by June 30, 1995 and provide only tariff cover for these industries thereafter. On October 19, the Government announced that imported gold coins would be exempted from the 20 percent sales tax as soon as implementing legislation could be arranged. Sales taxes will also be eliminated on products used for packaging and labeling, quality control, waste disposal, in-house movement and storage of goods, and aids to manufacturing that operate, apply, clean or sterilize.

New customs laws require that freight costs from door to port and, where possible, sellers' Australian marketing costs (agent commissions, printed material, etc.) and royalties be included in product import value for tariff calculation. The new valuation method particularly affects U.S. exports of potash to Australia and appear to be inconsistent with the GATT. The Government has informed U.S. representatives that the effect of calculating transportation costs in value has been overcome recently by lowering of the tariff rate on potash. Also, as noted in Section 5, new policies on television films and broadened application of offset requirements may also have adverse effects on U.S. exports.

4. External Debt Management Policies

Australia's gross external debt now exceeds A$166.1 billion, or 49.5 percent of GDP (A$335.6 billion at current prices on June 31, 1989). Net interest payments on public debt totaled A$10.1 billion in AFY 1988/89, representing 23.9 percent of exports of goods and services. Only 27 percent of Australia's external debt is owed by the public sector--an amount that is being repaid rapidly. The remainder is owed by the private sector. As a result of the size of the gross debt, Moody and Standard and Poor have downgraded Australia's general credit rating from AAA to AA+.

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5. Significant Barriers to U.S. Exports and Investment

Licensing: Australia abolished import license requirements for used machinery in June 1989. U.S. exports of used machinery had occasionally been affected by the process and the change is welcome. Import licenses are now required only for certain motor vehicles, textiles, clothing, and footwear. Licensing applied to other products is for protection, but except for importers of used automobiles has had little impact on U.S. products.

Services Barriers: The Australian Broadcasting Tribunal, an independent regulating authority, maintains local content requirements on television programming. The Tribunal decided in January 1990 to phase in local content regulations by 1993. Fifty percent of a television stations' weekly prime time broadcasting would be "Australian" as evaluated on a point system based on factors ranging from relevancy to Australia (setting, accent, etc.) to a percent of Australian control of production. In addition, the Tribunal requires that not more than 20 percent of commercial advertising shown on Australian television be produced by non-Australians (except New Zealanders), unless an Australian "ghost crew" is hired to compensate for Australian content requirements. As a result of this regulation, the U.S. Travel and Tourism Administration was banned from airing its Hawaii promotional video in Australia. The U.S. Government has vigorously opposed the Tribunal's regulations

State governments restrict development of private hospitals in order to limit public health expenditures and to balance public/private services to prevent saturation and overuse--major government fiscal concerns given that most medical expenses for private hospital care are paid through government health programs.

Tariffs: Australia's tariff structure is relatively high for a developed country, with average tariffs of about 10-25 percent. The majority of these tariffs are also unbound in the GATT.

Standards: Australia, a non-signatory to the GATT Standards Code, maintains restrictive standards requirements and design rules for automobile parts, electronic and medical equipment, and some machine parts and equipment.

Labeling: Federal law requires that country of origin be clearly indicated on the front label of products sold in Australia. Labels must also express mass or volume of packaging contents to the nearest five milliliters or kilograms. For example, 16 ounces, which is 473 milliliters, must be expressed as 475 milliliters. These regulations usually mean foreign vendors must print and apply special labels to products, often in small quantities exclusively for the Australian market. Some of these regulations, however, are being reconsidered in light of their lack of utility and effect on trade.

Packaging: All consumer goods that come in a package or bottle must conform to a variety of often non-uniform and conflicting packaging regulations established by each state government. Sales of goods not conforming to its packaging regulations are prohibited in that state. Trade problems have been encountered with mass, size, packaging material, labeling, and content description requirements. A federal effort is underway to develop, with state participation, uniform national standards.

Motor Vehicles: A new Motor Vehicle Standards Act came into effect on August 1, 1989 applying only to vehicles manufactured after 1973. Under the Act, vehicles imported for personal use are banned except where the car was purchased and used overseas by the buyer for a minimum of three months. Commercial importers must apply for a "compliance plate" costing A$20,000 for each make of car imported. Lefthand drive cars must be converted to righthand before they may be driven in Australia. Only approved (licensed) garages are permitted to make these conversions. About 8,000 U.S. origin vehicles per year are imported into Australia. This number is expected to decline under the new Act.

Investments: A 30 percent offset investment in Australia is required on most contract sales valued at more than A$2.5 million made to Australian federal or state governments. Since March 1, 1988, all government contract sales are recorded in a "national offsets program," in which the value of the purchases by state and federal government authorities is pooled and offset liabilities are levied against an overseas supplier whenever cumulative contract values exceed A$2.5 million. Offset requirements may be satisfied through investment or technology transfer to Australia, value of training, or domestic purchases of Australian manufactured products equal in value to the obligation. Some U.S. firms have had difficulty meeting requirements. Unfulfilled offset requirements can result in damage assessments. Offset arrangements often form the basis for collaborative ventures with Australian companies. Because U.S. companies historically have captured about 80 percent of trade subject to offsets, U.S. firms have been most affected by these requirements. A July 1989 U.S. Foreign Commercial Service study of offsets in Australia estimates that offset obligations of U.S. firms operating in the country totals over U.S. $500 million.

Foreign investment is welcome in Australia. All new foreign direct investment in the media, civil aviation, some mining, and urban real estate, or that involving foreign takeover of 15 percent or more of an Australian corporation, is subject to approval by the Foreign Investment Review Board (FIRB). Other investments, including oil and gas development projects, worth more than A$10 million are subject to FIRB review, but most are approved unless judged to be contrary to the national interest.

Mining investment greater than A$10 million must normally contain at least 50 percent Australian equity, except when Australian capital is not available. Except for exploration, investment in uranium mining projects is prohibited.

Disinvestment cannot be forced without due process of law and may occur only in situations stemming from investments or mergers which tend to create market dominance, contravene laws on equity participation, or result from unfulfilled contractual obligations.

Government Procurement: On November 1, 1989 the federal Government abolished its policy of giving Australian and New Zealand bidders on government contracts valued at A$200,000 a 20 percent preference over foreign bidders. Australia's states and territories are expected to follow suit. The move opens the possibility that Australia may sign the GATT Government Procurement Code in 1990.

Quarantines: Because of its geographic isolation, Australia is relatively free of many animal diseases (rabies, hoof-and-mouth, etc.) and pests that plague other parts of the world. To preserve its environment, Australia has stringent animal and plant quarantine restrictions. Livestock imports are limited to reproductive material and a few valuable breeding animals that must undergo long quarantines.

Local Content Requirements

Automobiles: Passenger vehicles manufactured in Australia must have 85 percent local content. However, an export facilitation scheme lets domestic automobile manufacturers credit vehicle and parts exports against this requirement, thus reducing effective local content levels for some manufacturers.

Tobacco: Legislation governing local content (under accelerated phase out by 1993.) stipulates that at least 50 percent of tobacco utilized by local manufacturers be local leaf. In addition, an "informal" agreement between growers and cigarette manufacturers extends the local content requirement to 57 percent. Since October 12, 1989, the Government has banned the sale of smokeless tobaccos (chewing tobacco, snuff for oral use) in Australia, leaving the market solely to local products which can be and are used for oral purposes, but not labeled or marketed as such.

Fruit Juices: Noncarbonated drinks containing less than 25 percent fruit juice are subject to a 20 percent sales tax. Drinks with 25 percent or more local content are taxed 10 percent. U.S. industry claims the discriminatory tax on content results in a significant amount of lost sales.

6. Export Subsidies Policies

The Australian Government provides export market development reimbursement grants of up to A$150,000 for most domestic firms exporting goods and services. Other mechanisms provide for drawbacks of tariffs, sales, and excise taxes paid on exported finished products or their components. In some cases, government grants and low-cost financing are provided to exporters for training, research, insurance, shipping costs, fees, market advice, etc. "Bounties" are paid to manufacturers of some textile products, bed sheets, new ships, some machine tools, computer and moulding equipment, and photographic film coatings to help them compete with cheaper foreign-made substitutes. Bounties were permitted to expire on heavy vehicles and steel on December 31, 1988, on agricultural equipment on April 12, 1989, and on ship repairs on October 9, 1989. Most other bounties, except for some industrial machinery and textiles, are being reduced in AFY 1989/90. In September 1989, a new five-year bounty program was implemented to maintain the film-coating industry in Australia.

The Government provides support and research and development grants to Australian industry for trial and development of internationally competitive products and services for which the federal or state governments are the primary purchasers. Such support is expected to be A$38.9 million in AFY 1989/90. In May 1989, the 150 percent corporate tax deduction allowance for research and development, scheduled to expire June 30, 1991, was extended to June 30, 1993, with 125 percent allowed until expiration on June 30, 1995.

Electricity production is the purview of state governments, all of which subsidize the industry and, indirectly, users of electricity. States also control and subsidize railroads, and rates, many at less than cost, vary for different products. New South Wales and Queensland make up for railroad losses through charges to their coal industries. In competing for investment, states often offer a wide range of concessions on land, utilities, and labor training, some of which amount to subsidies.

Australia is a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Patents, trademarks, designs and copyrights are protected by Australian law. Australia is a member of the Paris Convention for the Protection of Intellectual Property, the Berne and Universal Copyright Conventions,

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and the Patent Cooperation Treaty. Australian law is broad and protects new technology, including genetic engineering.

Trade names and marks may be protected for seven years and renewed at will by registration under the Trademark Act. Once used, trade names and marks may also, without registration, be protected by common law. Protection often also extends to parallel importing; that is, imports of legally manufactured products ordered by someone other than a person or firm having exclusive distribution rights in Australia.

Patents are protected by the Patents Act, which offers coverage for 16 years, subject to renewal fees. Trade secrets can be protected by contract. Designs can be initially protected by registration under the Design Act for one year, which may be extended for six and five years respectively, upon application.

Copyrights are protected under the Copyright Act. Works do not require registration and copyright automatically subsists in original literary, artistic, musical and dramatic works, film and sound recordings. Computer programs are legally considered to be literary works. Copyright protection is for the life of the author plus 50 years.

The Australian Copyright Act provides protection regarding public performances in hotels and clubs, and against video piracy and unauthorized third-country imports. Although U.S. motion picture companies have previously indicated that they would like tighter protection to reduce unauthorized public performances and video taping, no new complaints have been noted for over a year. The Attorney General's Department monitors the effectiveness of industry bodies and enforcement entities in curbing the illegal use of copyrighted material.

Data on the incidence of piracy of copyrighted material is not available, although industry sources indicate that the crime is less prevalent in Australia than in the United States. Close monitoring by customs has virtually eliminated pirated books from the market. Press reports indicate that commercial pirating is prosecuted. Industry sources complain that copying of videos, tapes, and computer software for personal use is widespread, but difficult to monitor.

Illegal infringement of technology does not appear to be a significant problem. Australia has its own software industry and accords protection to foreign and domestic production. Australia manufactures only basic integrated circuits and semiconductor chips. Its geographic isolation precludes most U.S. satellite signal piracy. Australian networks, which pay for the rights to U.S. television programs, jealously guard against infringement. Cable television is not yet established in Australia.

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8. Worker Rights *

a. The Right of Association

Workers in Australia enjoy fully and practice the rights to associate, to organize and to bargain collectively; rights enshrined in the Arbitration Act of 1904. Australia has also ratified the major international labor organization conventions regarding worker rights.

b. The Right to Organize and Bargain Collectively

Approximately 40 percent of the work force belongs to a union. The industrial relations system operates through a series of independent government-supported tribunals, giving unions more power and opportunity than their counterparts have in the United States. A long tradition of industrial action exists in Australia. Unions in all sectors exercise fully the right to strike or take other job action as they consider necessary.

c. Prohibition of Forced or Compulsory Labor

Compulsory and forced labor is prohibited and not practiced in Australia.

d. Minimum Age for Employment of Children

The minimum age for the employment of children varies in Australia according to industry apprenticeship programs, but an effective floor is maintained on the age at which children may be employed fulltime by the enforced requirement that children attend school until age 15.

e. Acceptable Conditions of Work

Australia does not have a single minimum wage. Instead, minimum wages in individual industries are specified in industry "awards" approved by state or federal tribunals. As a result of the power of their unions, Australian workers enjoy hours, conditions, health, safety standards and wages that are among the best and highest in the world. Compliance with labor regulations is actively monitored and enforced.

f. Rights in Sectors with U.S. Investment

Most of Australia's industrial sectors enjoy some U.S. investment. Worker rights in all sectors are essentially identical in law and practice and do not differ between domestic and foreign ownership.

AUSTRALIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category		Amount
Petroleum		3,089
Total Manufacturing		4,178
Food & Kindred Products	519	
Chemicals & Allied Products	1,853	
Metals, Primary & Fabricated	140	
Machinery, except Electrical	414	
Electric & Electronic Equipment	97	
Transportation Equipment	257	
Other Manufacturing	898	
Wholesale Trade		1,322
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		8,589

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Australian country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

PEOPLE'S REPUBLIC OF CHINA

Key Economic Indicators

(Billions of renminbi (rmb) unless otherwise noted)

	1987	1988	1989 (proj)
Income, Production, and Employment 1/			
GNP (bils rmb) 2/	1,118	1,401	1,597
Real GNP growth (pct) 2/	9.4	11.2	6.7
GNP by sector	n/a	n/a	n/a
GNP per capita (rmb) 2/	1,035	1,278	1,437
Real per capita GNP growth (pct) 2/	7.9	9.6	5.3
Gross value indust output (GVIO) (bil rmb) 3/	1,381	1,810	2,123
Real growth GVIO (pct)	16.5	20.7	6.0
Gross value agric output (GVAO) 3/	468	562	697
Real growth GVAO (pct)	4.7	3.2	4.0
Population (mils)	1,080	1,096	1,111
Rate of pop growth (pct)	1.4	1.4	1.4
Size of labor force (mils) 4/	528	542	557
Official unemployment (pct) 5/	2.0	2.0	4.0
Money and Prices			
Money supply (M-1)	588	689	709
Domestic M-2 money supply	895	1,077	1,184
M-2 growth over yr-end (pct)	23.4	20.3	10.0
Commercial interest rates	n/a	n/a	n/a
Savings rate 6/	38.6	37.1	34.8
Investment rate 6/	38.5	37.5	35.5
Wholesale price index	n/a	n/a	n/a
General retail price index (CPI) (pct chg) 7/	9.2	27.7	6.0
Exchange rate (rmb/$)			
Official 8/	3.7	3.7	3.7
Parallel 9/	n/a	n/a	6.5
Balance of Payments and Trade (bil $)			
Total exports FOB	39.4	47.5	53.2
Exports to U.S. CIF 10/	6.9	9.3	12.0
Total imports CIF	43.2	55.2	64.0
Imports from U.S. FAS 11/	3.5	5.0	5.8
Aid from the U.S.	0.0	0.0	0.0
Aid from other countries	n/a	n/a	n/a
External debt (yr-end) 11/	30.2	40.0	44.0
Debt service paid (est)	2.5	4.5	5.0
Foreign exchange reserves yr-end (excl gold)	15.2	17.6	17.0
Current account balance	0.3	-3.8	-7.8

PEOPLE'S REPUBLIC OF CHINA

Notes:
1/ All rmb are current rmb. Growth rates are adjusted for inflation.
2/ Source for GNP data is the IMF's international financial statistics. GNP per capita and real per capita GNP growth are calculated using this IMF data. Real GNP growth is based on government statistics.
3/ In accordance with the material product system (MPS) of national income accounting, GVIO and GVAO figures are calculated on a gross rather than a net basis. They are not directly comparable with GNP and national income figures which are calculated on a value added basis.
4/ 1988 and 1989 are Embassy estimates.
5/ 1988 and 1989 are unofficial Chinese estimates.
6/ Estimates of gross national savings as a percent of GNP and gross domestic investment as a percent of GNP are as estimated by the IMF in January 1989.
7/ Figures are for December over December inflation. They differ from official Chinese statistics which show average annual inflation of 7.3 percent for 1987 and 18.5 percent for 1988. Official estimates for 1989 are for inflation below 10 percent.
8/ The official exchange rate was changed in December 1989 from 3.7 to 4.7/$1.00.
9/ The parallel exchange rate estimate is based on the average price of foreign exchange sold at domestic adjustment centers (swap markets).
10/ U.S.-China bilateral trade is based on U.S. Government data.
11/ Data for 1987 and 1988 are official Chinese figures; 1989 is an Embassy estimate. Debt includes outstanding shortterm debt as well as medium and longterm debt.

Sources: State Statistical Bureau (SSB) Yearbook and annual statistical communiques on economic performance, People's Bank of China banking data, Ministry of Finance budget reports, World Bank and International Monetary Fund reports, U.S. Government trade data and Embassy estimates.

1. General Policy Framework

Since the late 1970s, China has pursued the twin policies of economic reform and integration into the world economic community. This has involved the relaxation of direct planning controls over prices, output, and distribution, thereby expanding the scope for economic decision-making at the micro level. During the transition from a centrally planned, command economy to one more responsive to market forces, China achieved substantial increases in agricultural and industrial production. The average annual growth in GDP was nearly 11 percent between 1983 and 1988. Rural and urban living standards have risen significantly. Expanding demand, however, has outstripped the country's chronic supply constraints and fueled a serious inflation spiral. In order to strengthen the central government's macro-economic control and reduce overheated growth, authorities in late 1988 adopted a program of retrenchment and economic restructuring. By mid-1989 GDP growth had slowed to 5-6 percent.

The central government contniued its retrenchment and restructuring policies following the political turmoil in June 1989 and replacement of Communist Party General Secretary Zhao Ziyang by Jiang Zemin. Chinese leaders, however, are now stressing more than in the recent past the need for ideological discipline and the leading role of the state sector in China's economic development.

While successful in controlling price inflation and money supply and boosting savings, the retrenchment policy risks bringing the economy to a standstill. Moreover, attempts to regain control over macro-economic decision-making through greater centralization of foreign trade, the production and allocation of key commodities, fiscal authority, and credit issuance appear to have slowed the momentum of reform and liberalization.

The central government's budget deficit in 1988 was equal to 2.1 percent of GNP (using IMF methodology) and will likely increase in 1989. Rising losses by state enterprises, which contribute about 74 percent of government revenues, have undermined the state's financing capabilities at a time when increasing industrial and consumer subsidies have boosted expenditures. These subsidies consumed at least 30 percent of 1988 budget revenues. In 1988 the Government financed the deficit through domestic Treasury bonds (37 percent), foreign debt (33 percent) and the remainder by overdrafts with the banking system. The Government has also more rigorously enforced tax collection. The Government has announced its intention to implement significant changes in fiscal policy in 1990 both to increase revenue generation and to expand the share of total revenues reverting to the central authorities. The private sector in China is small and subject to government regulations which limit the size and scope of individual enterprises. According to official policy, the private sector exists as a subsidiary to the public sector. Concerned about possible competition for scarce resources and involvement in illegal activities, authorities singled out the private sector in 1989 for tougher inspection and enforcement of tax and other laws.

Tightened control on bank credit, along with reduced growth both in investment expenditures and consumer demand, have curbed the excessive expansion of money supply experienced in 1988. By mid-1989 overall money supply (M-2) was growing at half the rate of the same period in 1988. Personal savings during the period increased 27 percent, accounting for 90 percent of the growth in M-2. Meanwhile, the growth in credit was the lowest in seven years. The annualized rate of price inflation has dropped steadily through 1989. According to official estimates, the 1989 year-end retail price inflation rate could decline to 6 percent (December 1989 over December 1988). The People's Bank of China has relied on administrative controls to allocate credit according to an annual plan and to prevent diversion of funds at local banking levels to non-priority uses. The use of administrative controls rather than interest rates to allocate capital, however, has starved both efficient and inefficient enterprises, undermining efforts to improve overall productivity.

Furthermore, as the Government tightens controls over the banking system, the volume of funds outside the system and untouchable by monetary policy levers has grown. According to Chinese estimates these funds nearly equal the amount of cash in official channels. The introduction of value-preserving interest rates for savings accounts not only stimulated a sharp increase in savings but reduced the rapid growth in consumption expenditures.

2. Exchange Rate Policies

China administers a managed, floating official exchange rate, nominally linked to a trade-weighted basket of currencies, but in fact effectively pegged to the U.S. dollar. Most of China's trade transactions are denominated in U.S. dollars. The Chinese currency, the renminbi (rmb), is not freely convertible. China also issues hard currency-backed scrip for domestic payments by foreigners called foreign exchange certificates (FEC). The exchange rate of 3.7 rmb/$1.00 was adjusted to 4.7 rmb/$1.00 in December 1989. Further adjustment of the exchange rate is likely in 1990. Black market rates currently run between 5.5 rmb/$1.00 and 6 rmb/$1.00 in the capital. The apparent appreciation in the value of the rmb over 1988's black market rate is due to a declining demand for foreign exchange in general among the public at large and the concurrent increase in demand for rmb, as domestic money supply growth slows.

Foreign exchange adjustment centers (commonly called "swap markets") were established in late 1986 to permit the trading of enterprise foreign exchange or foreign exchange retention quotas. Rates are determined daily through negotiation between buyers and sellers. As of early 1989, there were 80 centers around the country; however trading methods differ from center to center. Through frequent intervention, the government has unofficially prevented the rmb from strengthening beyond a 6 rmb/$1.00 level.

3. Structural Policies

China has steadily relaxed state control on commodity pricing since the late 1970s. Products not subject to state controlled pricing are sold at prices negotiated by producers with consuming enterprises or at "free market" prices. The state also sets procurement prices and volumes for basic agricultural commodities, but permits farmers to sell "surplus" production on the free market. Pricing policies applied to agricultural products have been more liberal than in other sectors.

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Marked differences also exist in price levels among China's provinces. In response to rising inflation since 1986, the Government has applied stronger controls on urban food and staple consumer food prices. At the same time, authorities have raised procurement prices on agricultural goods to stimulate production. These actions have resulted in major pricing gaps, which have been covered by government subsidies. Prices on a range of key industrial raw materials produced by state enterprises, however, have not been adjusted in pace with inflation and rising factory operating costs, thereby straining the financial position of many firms. Sensitive to potential inflationary pressures, the government has postponed implementing comprehensive, market-oriented price reform.

China's policy of "opening to the outside" has led to substantial foreign trade growth over the past decade. Total trade increased 24 percent in 1988, but economic difficulties will probably hold 1989 growth to about 15 percent. Rapid economic growth in 1988 and early 1989 caused serious economic overheating, which boosted imports and left export industries with inadequate supplies. The current account showed a $3.8 billion deficit in 1988. We estimate the deficit will grow to $10 billion in 1989. Overall U.S. export performance has been excellent, with exports to China in the first nine months of 1989 up 26 percent over the same period in 1988. However, even larger increases in U.S. imports from China have further widened our trade deficit with the PRC. In addition, growth in U.S. manufactured exports to China has been almost flat.

China continues to rely on administrative measures to control imports of products that it does not consider necessary for its development or that it can produce itself. However, China's trade system has undergone reforms which have significantly altered the trading environment. In 1988, trading enterprises in the machinery and electrical products, apparel, and handicraft industries were allowed to engage directly in foreign trade, keep more of their earned foreign exchange, and be responsible for their own profits and losses. The decentralization of foreign trade decision-making, especially the leeway given to enterprises in using retained foreign exchange, has been beneficial to U.S. exporters. Prompted by China's overheated economy, in late 1988 China began to trim back some of the trade reforms. However, overall, foreign trade reform has not yet been significantly eroded.

China encourages foreign investment through a host of incentives, many of which encourage investment in technologically-advanced and export-oriented manufacturing ventures. The Government approval process is also used to screen out investments not consistent with China's economic priorities, or otherwise deemed undesirable. Despite the range of incentives, investors find that turning a profit in this semi-reformed command economy demands skill, contacts, luck, and very steady nerves.

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Since the beginning of economic retrenchment in 1988, China has reiterated that its open door to foreign investment will not close. However, Beijing's policies in this period - especially in controlling credit - have created serious problems for many foreign direct investment projects. Obtaining supplies and managing cash flow are particular problems. It is not yet clear just how the authorities will respond to these problems. However, there appears to be a consensus within the senior leadership that foreign direct investment ought to be preserved as a means to introduce new technology, finance, and export capability into the economy. It is noteworthy that the government has refrained from adopting policies clearly prejudicial to foreign direct investment.

4. Debt Management Policies

The IMF, the World Bank, and the commercial banking community regard China's current debt burden as well within acceptable limits. At the end of 1988, China's total outstanding debt was $40 billion, 82 percent in long- and medium-term loans and 18 percent in short-term loans. This is equivalent to about 11 percent of GNP. The debt service ratio was estimated at a moderate 9-10 percent. As a result of foreign reaction to the Government's response to political disturbances in May and June 1989, multilateral banks halted consideration of new lending to China, and most new commercial lending was put on hold pending resumption of lending from the World Bank and Asian Development Bank. Despite this reduction in capital inflows, China is expected to be able to manage its foreign payments through a combination of policy measures that includes drawing down on foreign exchange reserves, controlling imports, and boosting exports, primarily via direct export subsidies.

Debt management responsibility is shared by several central government agencies, including the State Planning Commission, the People's Bank of China, the Ministry of Finance, and the Ministry of Foreign Economic Relations and Trade. Annual quotas for foreign borrowing are allocated to localities and enterprises through the central planning process. The State Administration for Exchange Control (SAEC), a unit of the People's Bank, is responsible for enforcing quota restrictions, approving any out-of-plan borrowing, and ensuring that borrowers are capable of repaying their loans. Since mid-1987, all foreign loans nationwide (including those of Sino-foreign joint ventures) must be registered with the SAEC within a prescribed period of time.

5. Significant Barriers to U.S. Exports and Investment

China's import policy is designed to conserve foreign exchange and avoid balance of payments difficulties, while ensuring the inflow of materials and technology needed for the country's development and of essential products, like grain, where supply cannot meet demand. Market controls to regulate imports include tariffs and an import regulatory tax. Administrative controls include import licensing, embargoes, import substitution regulations and foreign exchange restrictions. China adheres to the traditional use of tariffs as a tool to protect its domestic industry. Tariff ranges are highly variable and for some industrial goods extremely high (up to 200 percent). An import regulatory tax enacted on a "temporary" basis in 1985 subjects over 20 products to import charges over and above published tariff rates. The industrial and commercial consolidated tax, a kind of turnover tax, is also levied upon imports.

China maintains a complex import licensing system. The principal rationale for import licensing is to control the expenditure of foreign exchange and protect Chinese manufacturers from foreign competition. Currently, 53 broad categories of products require import licenses, covering a wide range of consumer goods, raw materials and production equipment. Obtaining a license often requires approval from several layers of bureaucracy, and in many cases, a certificate of approval from the ministry that oversees the manufacture of such products in China -- a potential conflict of interest. Even after a license has been issued by a local trade bureau, it can be rescinded if the central government decides that the transaction is not consistent with current trade policy. Denial of import licenses has been an especially acute problem from some U.S. joint ventures which must source important components abroad.

China uses embargoes to restrict certain consumer goods imports. China has also banned imports of production lines for televisions, tape recorders, washing machines and air conditioners. Approximately 80 types of consumer goods, raw materials and production equipment are now embargoed. Because U.S. consumer goods exports to China are relatively small, U.S. trade has not been greatly affected. China has put into place regulations that require the purchase of certain domestically-made machinery and electrical products as substitutes for imports. Although regulations state that the import substitutes must be "comparable" in quality and price to the imports, no implementing procedures to ensure that this standard is maintained have been published for domestic products. Facing the imminent repayment of major international loans, Beijing is ordering some work units to cancel previously agreed import plans and to source the goods domestically. Some of these orders may be placed with joint ventures, however, helping to insure higher product quality.

U.S. firms frequently cite China's foreign exchange controls as the most significant non-tariff barrier to trade and investment. Because many of the regulations surrounding foreign exchange are unavailable to foreign business persons, U.S. companies are often uncertain if foreign exchange is available to pay for contracted products and services. China's requirement that joint ventures balance their foreign exchange requirements is particularly onerous.

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The most notable example of unfair application of standards and testing requirements relates to the pesticide industry. China requires registration of any new pesticide "put into commercial production." It appears that some Chinese producers have not been required to document and demonstrate safety and effectiveness as the regulations prescribe. Foreign manufacturers must meet the requirement because proof of compliance is required to obtain import licenses. U.S. companies report that developing safety and health data that comply with Chinese regulations costs more that $5 million per agricultural chemical. It is nearly impossible for a foreign company to compete with a Chinese producer who is allowed to avoid such requirements. In recent months, China has announced regulations expanding the range of products covered by import inspection procedures. It remains to be seen if these strengthened procedures will be used for further control of imports.

Chinese restrictions on certain foreign firm service activities (including insurance, construction, banking, accounting, and legal services) prevent U.S. firms from participating fully in China's service sector. U.S. banks, for example, have not been permitted to set up branch banks in China (except for two small branches in the Xiamen and Shenzhen Special Economic Zones), while the New York branch of the Bank of China has conducted all forms of branch banking activities since 1980. U.S. insurance firms are not allowed to participate in the direct insurance market in China. U.S. lawyers and accountants must limit their activities largely to servicing foreign firms that do business in China. Foreign law firms cannot be registered as official representative offices, nor can accountants be registered as CPA's.

Despite central government efforts to improve the investment climate, problems of bureaucratic inefficiency, insufficient foreign exchange, and competitive disadvantages in the domestic market continue to plague many foreign investors. All of these problems have been compounded by the negative effects of the retrenchment program.

China does not provide national treatment to foreign investors. In some key areas, such as input costs, foreign investors are treated less favorably than Chinese firms. Recently, for example, some joint ventures whose contracts guaranteed supplies under the state plan and at plan prices have found these supplies unavailable. They have therefore had to buy the supplies, when they have been available at all, at much higher market prices. Meanwhile, their Chinese competitors are sometimes still able to obtain the supplies at the plan price, undercutting the FDI enterprises' competitiveness.

China denies foreign investors the right to take the Chinese Government to international arbitration, preferring to rely on consultations to settle disputes. China does not recognize international expropriation standards. The Chinese currency, the renminbi, remains inconvertible. To repatriate profits, a foreign investor must either export to earn foreign exchange, exchange renminbi for foreign exchange at a premium on the officially-sanctioned swap market, or use some other ad hoc measure. (However, a few products designated as import substitutes by the Chinese Government can be sold on the domestic market for foreign exchange.)

FDI enterprises frequently must sell their goods at abnormally low official prices. One major U.S. investor, for example, is forced to sell a portion of its product domestically through designated channels at a price which is a fraction of what it could get if it made its own marketing decisions.

Localization creates special difficulties for foreign investors. Their contracts frequently set localization goals which cannot be met without buying poorer quality domestically-produced equivalents. The local products are also sometimes more expensive. This not only undermines competitiveness but also sets another restriction on free trade.

6. Export Subsidies Policies

Many of China's manufactured exports are assisted directly by the central government. Chinese officials explain that this assistance was not put in place to give Chinese products unfair competitive advantages in international markets, but is necessary to compensate for unrealistically high, state-set, domestic prices for manufactured products. At the domestic price, they say, China's manufactured exports would be priced above international prices. Assistance is offered to compensate for losses taken by trading enterprises when they sell goods at the lower, international price. Other export incentives that may be regarded as subsidies include tax rebates for exporters and duty exemptions on imported inputs for export production. China's swap markets constitute a de facto alternative exchange rate system where exporters can exchange earned foreign exchange for domestic currency at a rate much higher than the official rate. Exporters also have the right to convert their foreign exchange earnings into renminbi at rates higher than the official rate depending on product exported.

7. Protection of U.S. Intellectual Property

The PRC is a member of the World Intellectual Property Organization and is a signatory to the Paris Convention for the Protection of Industrial Property.

In May 1989 China and the U.S. signed a memorandum of understanding on intellectual property rights. The PRC agreed to draft a new copyright law and make revisions to the 1984 Patent Law. Drafts of a new copyright law have been submitted to the Legislative Affairs Department of the State Council but was not submitted to the State Council by the end of 1989, as promised by the Government. However, Chinese officials are optimistic that the law will be passed by the NPC early in 1990. Revisions to the 1984 Patent Law are currently being drafted. The revisions reportedly will increase the term and scope of patent protection. Chinese patent and copyright officials and universities are working to increase intellectual property rights education, particularly for authors, publishers and performers. In October 1989, the PRC joined the Madrid Agreement for the Registration of Marks. Many longstanding problems remain, however. China is one of the 17 countries cited by the U.S. Special Trade Representative for inadquate protection of intellectual property rights under Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act.

China's current patent law does not protect chemical or pharmaceutical products. U.S. firms have reported that some fertilizers patented in the U.S.have been produced in China without license for both the domestic and export market. Moreover, the formulae have sometimes been copied incorrectly, causing serious damage to end-users and damaging the reputation of the genuine product. Some of these problems may be resolved when the Patent Law is revised. Unfortunately, the revised patent law reportedly will still not provide protection for pharmaceutical products.

China's trademark regime is generally consistent with international practice. However, pirating is still widespread and actions taken against infringers generally must be instigated by the injured company.

Until the new copyright law is promulgated, there is no copyright protection in the PRC. The pirating of books and tapes is widespread. There does not appear to be much pirating of video tapes because China's home video market is extremely small.

U.S. software producers are reluctant to sell or license their products in China because of extensive unauthorized copying. Unauthorized copying of software may also affect significantly computer hardware sales, as some Chinese manufacturers appear to be undercutting American manufacturers by offering computer packages utilizing unauthorized copies of U.S. software. There are reportedly cases of computer hardware counterfeiting for domestic and export sales, but we have little data on how widespread the problem is. The Chinese are forming a working group to discuss protection for integrated circuits.

Inadequate protection of pharmaceutical and chemical products could cost U.S. manufacturers millions of dollars in lost sales in 1989 and inferior copies may harm the reputation of the genuine product, affecting future sales. U.S. book publishers estimate annual losses of $ 100 million because of book pirating in China. We estimate that the Chinese have made illegal copies of software with an annual U.S. market value of $150 million. Unauthorized copyrighting of U.S. software has resulted in very little market penetration by U.S. firms in a potentially lucrative market. Finally, lost hardware sales caused by counterfeit production and the low package prices offered for Chinese-made computers which include pirated software could be in the tens of millions of dollars.

8. Worker Rights *

a. The Right of Association

The PRC's 1982 Constitution guarantees "freedom of association" but the guarantee is heavily qualified by references to the interest of the state and the leadership of the communist party. Union membership is voluntary, but every enterprise must have a union. There is only one authorized labor organization in China, the All-China Federation of Unions (ACFTU). Chinese officials have said publicly that they will not tolerate autonomous unions. When "Workers' Autonomous Federations" were formed in eight major cities during the political demonstrations of spring 1989, Government reaction was swift and harsh. Workers have been the most visible targets of government reprisals for the demonstrations.

b. The Right to Organize and Bargain Collectively

The Government does not permit collective bargaining. Strikes, and more commonly, work slowdowns do occur, however, usually over distribution of benefits or safety concerns at individual enterprises. They are normally resolved without the need for intervention from outside the enterprise. Worker congresses in enterprises were being strengthened to allow Chinese workers more input into management and welfare decisions, but the role of the communist party in union and worker congress affairs may be reasserted as a result of the demonstrations in the spring of 1989.

c. Prohibition of Forced or Compulsory Labor

China is still considering ratification of ILO Convention 105 on forced labor. China's longstanding practice of "reform through labor" or "education through labor" entails compulsory labor. There are no credible reports of forced labor outside of prison and labor reform camp settings.

d. Minimum Age for Employment of Children

Chinese regulations prohibit the employment of minors who have not completed the compulsory nine years of schooling. China has a persistent problem with employment of underage, workers, however. Such employment usually occurs in small, collectively- or privately-owned retail or light industrial firms in the rural areas or special economic zones. In September 1988, the Ministry of Labor issued a circular imposing harsh fines, the withdrawal of business licenses or jail for employers hiring underage workers.

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e. Acceptable Conditions of Work

China has not yet adotped a labor code. The mimimum terms and conditions of employment, including wages, are unilaterally determined through administrative regulations which are not publicly available. There is no minimum wage law, although administrative regulations apparently fix the minimum at between $9.00 and $13.00 per month. A large proportion of a worker's income comes in the form of bonuses or subsidies added to a basic wage. The maximum and normal work week is 48 hours, of which 3 to 12 hours are generally spent in political study. Although occupational health and safety are constant themes of posters and campaigns at factories and construction sites, general health and safety conditions in the workplace are extremely poor.

f. Rights in Sectors with U.S. Investment

With regard to the first three worker rights criteria (right of association, right to organize and bargain collectively, and prohibition on the use of forced labor), practices in the goods producing sectors in which there is significant U.S. investment appear identical to those in other sectors, as described in the above section. With regard to working conditions, the petroleum sector perhaps stands out as having a larger proportion of hazardous jobs. But in a sector such as petroleum, which has accepted fairly substantial foreign investment, workers in the sector's foreign-invested firms ordinarily enjoy better working conditions than in corresponding domestic firms.

China has a small but apparently persistent problem with employment of underage workers. Of the sectors with U.S. investment, the only ones likely to employ any number of underage workers are food and related products and other manufacturing. There is no apparent indication, however, that there is a particular problem in the food processing sector. Most of the sectors with U.S. investment are dominated by very large state-owned or collectively-owned companies. In these companies, employment of underage workers is unknown.

PEOPLE'S REPUBLIC OF CHINA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		110
Total Manufacturing		61
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	2	
Wholesale Trade		73
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		244

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the People's Republic of China country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

HONG KONG

Key Economic Indicators

(Millions of Hong Kong dollars (HK$) unless otherwise noted)

Income, Production, and Employment	1987	1988	1989 (proj)
Real GDP (1980 prices)	229,148 1/	245,812 2/	260,561 3/
Real GDP growth rate (pct)	13.8 1/	7.3 2/	3.5 3/
GDP by sector (pct tot) 1/			
Agriculture/fishing	0.4	n/a	n/a
Manufacturing	21.7	n/a	n/a
Commerce 4/	31.7	n/a	n/a
Finance 5/	18.1	n/a	n/a
Construction	4.7	n/a	n/a
Real per capita income	40,822 1/	43,267 2/	44,998 3/
Labor force (1000's) 8/	2,793	2,808	2,822 7/
Unemployment rate (pct) 6/	1.9	1.6	1.4 7/
Money and prices			
Money supply (M-1) 8/	81,902	88,834	88,172 18/
Commercial interest rate (pct) 8/ 10/	5.5	10.0	10.0 9/
Savings rate (pct) 8/ 11/	1.5	5.25	5.25 9/
Invest rate (pct) 8/ 12/	2.0	6.5	6.5 9/
Consum price index-A 13/	109.4	117.5	130.7 14/
Wholesale price index	0	0	0
Exchange rate (HK$/$)	7.798	7.806	7.792 14/
Balance of Payments and Trade			
Total exports FOB	378,034	493,069	586,295 14/
Domestic exports	195,254	217,664	230,724 14/
Re-exports	182,780	275,405	371,797 14/
Exports to U.S. FOB	105,271	122,367	147,255 14/
of which			
Domestic exports	72,817	72,884	73,030 14/
Re-exports	32,454	49,483	74,225 14/
Total imports CIF	377,948	498,798	593,112 14/
Imports from U.S. CIF	32,242	41,347	47,549 14/
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External public debt	0	0	0
Annual debt service	0	0	0
Gold & forex reserves 16/	n/a	n/a	n/a
Balance of payments 16/	n/a	n/a	n/a

1/ revised provisional estimate
2/ revised preliminary estimate
3/ Consulate projection
4/ includes wholesale, retail, import/export trades, restaurants, hotels, transport, storage and communications
5/ includes banking, insurance, real estate and business services

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6/ quarterly average; seasonally adjusted
7/ average, Apr-Jun 1989
8/ end of period
9/ September 1989
10/ prime lending rate
11/ savings deposit rate
12/ 3-month time deposit rate
13/ Oct 1984-Sept 1985; CPI-A covers urban households with monthly expenditure of HK$ 2,000-6,499 (approximately 50 percent of households)
14/ January-August 1989
15/ the foreign exchange holdings of the Hong Kong Government Exchange Fund are confidential
16/ the Hong Kong Government does not keep statistics on capital, interest, dividend or royalty flows, making it impossible to construct a balance of payments table.

1. General Policy Framework

The Hong Kong Government pursues a policy of minimum interference in the economy. This applies to trade in goods, services and investment, making the territory's markets arguably the most open in the world. There are no import tariffs and duties are levied for revenue purposes only on tobacco, cosmetics, non-alcoholic beverages, liquors, methyl alcohol and some hydrocarbons. Duties are non-discriminatory and levied equally on local manufactures and imports. There are no non-tariff barriers to trade in goods and none in services with the exception of accreditation of foreign professionals in the legal and medical fields. There is no protection nor are there subsidies for manufacturing. Hong Kong has a freely convertible currency and allows complete freedom of capital movement. Taxes are low and are currently set at 16.5 percent for corporate profits, 15 percent maximum on personal income. Property is taxed; interest, royalties, dividends, capital gains and sales are not.

The Hong Kong Government welcomes foreign investment in the territory. It makes no distinction in law or practice between foreign and domestic companies. There are no restrictions on foreign ownership, nor are there export performance or local content requirements. Profits can be freely converted and remitted.

Hong Kong is unique in the world in that the Government makes no attempt to control the domestic money supply, instead allowing fluctuations to take place as dictated by maintenance of a fixed exchange rate relative to the U.S. dollar. Hong Kong has no Central Bank, although the Financial Secretary and the Monetary Affairs Branch do have considerable authority in monetary matters. Hong Kong lacks a rediscount rate, reserve requirement or system of open market operations as such. As there are no currency controls, domestic money supply growth is determined by balance-of-payments flows in the context of the fixed exchange rate link to the U.S. dollar. The domestic money supply and prices adjust to whatever level necessary to maintain the exchange rate link. This is largely accomplished by market forces through currency or interest rate arbitrage.

On July 18, 1988 the Hong Kong Government augmented its control over domestic interbank rates by requiring that the net clearing balance of the interbank clearing house be deposited with the Government's Exchange Fund. While this change gave the Government the power to affect liquidity in the interbank market, the power has been used sparingly. The most recent instance was in June 1989 when the authorities acted quickly to inject liquidity into the market following a run on the Bank of China Group after the June 4 Tiananmen massacre. The same amount of liquidity was withdrawn in early August once market conditions had normalized.

2. Exchange Rate Policies

The Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00 since October 1983. The link is maintained by a system of currency and interest rate arbitrage primarily determined by market forces. There are no multiple rates and no foreign exchange controls. In fact, more than half the deposits in the domestic banking system are denominated in foreign currencies. The price competitiveness of U.S. exports is affected by the value of the U.S. dollar in relation to third country currencies. When the value of the U.S. dollar rises in the international market, U.S. exports are less competitive in Hong Kong and vice versa.

3. Structural Policies

The Hong Kong Government does not interfere in any way in the free market price-setting mechanism. There are no price controls or subsidies of any kind. Hong Kong is a GATT member and signatory to the GATT Government Procurement Code and conducts government procurements on an open international offer and bid basis. Tenders are published in the U.S. Department of Commerce biweekly magazine "Business America" and provided to subscribers to the Trade Opportunity Program.

Hong Kong pursues a balanced budget strategy based on estimates of growth in the economy. Revenues are derived from betting duty, entertainments tax, estate duty, hotel accommodation tax, stamp duty and earnings and profits tax. Individuals are liable for tax on three sources of income: business profits, salaries and property. Profits tax is charged only on profits arising or derived from business carried on in Hong Kong. The Government pursues a low-tax policy; profits and personal income taxes were reduced by half a percentage point to their current low levels of 16.5 and 15 percent, respectively, in 1988. As the direct tax base is narrow (salaries and profits tax account for nearly half of general revenue), the Government is studying imposition of a sales tax at the wholesale level.

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Hong Kong imposes virtually no controls on trade and industry other than to ensure sound business practices and to meet international obligations associated with health, safety and security. There are no laws or regulations which effectively encourage or discourage investment or determine its character. In line with its obligations to restrain expos of certain textiles and apparel under bilateral agreements, Hong Kong has an export control system administered by its trade department. Due to heavy reliance on sales to the U.S. market and its trade surplus with the United States, the Hong Kong Government encourages diversification of export markets and increased imports from the United States.

4. Debt Management Policies

The Hong Kong Government has no foreign debt and has issued only one domestic debt instrument (a five-year bond issued in 1984 for HK$10 billion) which will be retired by the end of 1989.

5. Significant Barriers to U.S. Exports and Investment

There is no general tariff on goods entering Hong Kong; duties are levied for revenue purposes only on six groups of commodities (see Section 1). Barriers to trade in services involve accreditation of foreign legal and medical practitioners. The Hong Kong Government has proposed elimination of the prohibition on foreign law firms employing or admitting as partners qualified local solicitors and which advise on third country law. A consultative document on this proposal was released to local law organizations and the general public in April 1989 for comments. The consultation process ended with receipt of responses in July 1989. The Hong Kong Government legal department is currently reviewing these responses. It is expected that the Government will make a decision in the near future as to whether to seek an amendment to the legal practitioners ordinance to effect change.

6. Export Subsidies Policies

Except for the statutory Trade Development Council which engages in export promotion activities, the Hong Kong Government does not subsidize exports either directly or indirectly. The Council is financed by net proceeds of an ad valorem levy of 0.5 percent on all exports and on imports other than foodstuffs and by miscellaneous income from advertising fees and publication sales.

7. Protection of U.S. Intellectual Property

Hong Kong is a signatory to the Berne Copyright, the Paris Industrial Property, and the Universal Copyright Conventions. To meet its obligations under these conventions, Hong Kong has enacted laws covering trademarks, trade descriptions (includes counterfeiting) copyrights, industrial designs and patents.

Hong Kong's patent law is identical to British patent law. A large proportion of patents are registered by U.S. firms. Protection extends for 20 years from filing. Hong Kong provides full patent protection for chemical compounds and foodstuffs. There are no restrictions on the licensing of patents nor is licensing compulsory.

All trademark registrations in Hong Kong, valid for seven years and renewable for 14-year periods, are original. Proprietors of trademarks registered elsewhere must apply anew and satisfy all requirements of Hong Kong law. When evidence of use is required, such use must have been in Hong Kong. Counterfeiting and trademark infringement carry maximum penalties of HK$100,000 and imprisonment for two years on summary offenses and HK$500,000 and imprisonment for five years on indictable offenses. All goods seized are liable to forfeiture.

Copyright protection in Hong Kong derives from British law extended to Hong Kong and from the Hong Kong Copyright Ordinance. Foreign works are protected, provided ownership is vested in a country which is a signatory to one of the international conventions.

Protection under the Copyright Ordinance is automatic; no registration is necessary. Three-dimensional representations of two-dimensional works are protected as are registered designs. Copyright infringement carries a penalty of HK$1,000 for each copy and imprisonment for one year. For possession of plates used, or intended to be used in counterfeiting of copyrighted materials, the maximum penalty is HK$50,000 and imprisonment for three years.

Following a detailed review of Hong Kong's intellectual property laws, the American Chamber of Commerce in Hong Kong concluded in 1988 that, by virtue of the rights created by law and the remedies available for enforcement, Hong Kong's intellectual property laws are among the strongest in the world. The Chamber further concluded that Hong Kong has no intellectual property laws or administrative practices which act to hinder trade.

8. Worker Rights *

a. The Right of Association

The right of association and the right of workers and employers to establish and join organizations of their own choosing are guaranteed under ILO Conventions. Unions are defined as corporate bodies and enjoy immunity from civil suits arising from breaking of contingent contracts or interference with trade by work stoppages on their part. The Hong Kong Government does not discourage or impede union formation or discriminate against union members. Workers who allege anti-union discrimination have the right to have their cases heard by a government labor relations body.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is guaranteed under the applied ILO Convention. However, the latter is not widely practiced and there are no specific mechanisms to encourage it. Instead, a dispute settlement system administered by the Government is generally resorted to in the case of a labor dispute. If initial conciliation efforts prove unsuccessful, the matter may be referred to arbitration with the consent of the parties or a board of inquiry may be established to investigate and recommend.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor is prohibited under the applicable ILO conventions.

d. Minimum Age of Employment of Children

By regulation, minors are allowed to do limited part-time work beginning at 13 and full-time work at 15. Females under 18 are prohibited from working in establishments subject to liquor regulations. The Labour Inspectorate inspects work places to ensure that regulations are being honored. During 1988, inspections resulted in 861 prosecutions for employing children under age or during prohibited hours.

e. Acceptable Conditions of Work

Supply and demand determines wage rates. There is no legislated minimum wage. A 1968 law regulates working conditions and employment contracts for workers earning $1475 or less per month (the bulk of the labor force). Hours and conditions of work for women and young people 15 to 17 in industry are legislated. There are no restrictions on hours of work for men; overtime is restricted for women and prohibited to all young persons. The Government has enacted industrial safety and compensation legislation. The Labour Department conducts inspections to enforce legislation and also carries out environmental testing and conducts medical examinations for complaints related to occupational hazards.

f. Rights in Sectors with U.S. Investment

U.S. direct investment is concentrated in the chemicals and electrical products and electronics industries where working conditions do not differ materially from those in other sectors. A tight labor market and high job turnover in the manufacturing sector have stimulated continuing improvements in working conditions as employers compete for available workers.

HONG KONG

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		237
Total Manufacturing		594
Food & Kindred Products	13	
Chemicals & Allied Products	208	
Metals, Primary & Fabricated	34	
Machinery, except Electrical	105	
Electric & Electronic Equipment	100	
Transportation Equipment	0	
Other Manufacturing	134	
Wholesale Trade		2,008
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,839

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Hong Kong country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Billions 1983 Indonesian rupiah (Rp) unless otherwise noted

	1987	1988	1989 (est)
Income, Production, and Employment			
Real GDP	94,302	99,696	106,176
Real GDP growth (pct)	4.5	5.7	6.5
By sector			
Agriculture	20,136	21,008	n/a
Mining and energy	16,365	15,934	n/a
Manufacturing	16,235	18,340	n/a
Electricity/gas/water	495	547	n/a
Construction	4,803	5,119	n/a
Retail trade/hotels	14,358	15,662	n/a
Transport/communications	4,937	5,225	n/a
Banking	3,530	3,597	n/a
Real estate	2,654	2,762	n/a
Government	7,366	7,932	n/a
Services	3,422	3,570	n/a
Real per capita income 1/	547	566	589
Labor force (mils) (est)	69.0	74.5	76.8
Unemployment rate 2/	2.21	2.95	3.1
Money and Prices			
Money supply (M1) (pct) 3/	2.7	13.5	15.3
Interest rates 4/	14.6	15.4	12.7
Savings rate	n/a	n/a	n/a
Investment rate	n/a	n/a	n/a
Consumer price index 5/	287	310	330
Change in CPI (pct)	9.1	8.0	6.5
Wholesale price index	n/a	n/a	n/a
Exchange rate (Rp/$)	1644	1686	1770
Balance of Payments and Trade (bils $)			
Exports	18.3	19.6	20.2
Oil	6.2	5.1	4.8
Gas	2.7	2.5	2.5
Non-oil/gas	9.5	11.9	13.0
Imports	-12.9	-14.2	-15.3
Oil	- 2.1	- 1.9	-1.9
Gas	- 0.1	- 0.2	-0.2
Non-oil/gas	-10.6	-12.1	-13.2
Services	-7.1	-7.3	-7.4
Oil	-1.6	-1.7	-1.5
Gas	-1.1	-0.9	-1.0
Non-oil/gas	-4.3	-4.8	-4.9
Exports to U.S. CIF (mils $)	3,348	3,073	3,500
Imports from U.S. FOB (mils $)	1,415	1,735	2,000
Aid from U.S. 6/	190	90	90
Aid from other countries 6/	2,960	3,910	4,207
Annual debt service	4.967	6.443	6.829
Official reserves	6,911	6,546	6,050
Current account	-1.7	-1.9	-2.4

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1/ thousands of rupiahs
2/ percent, 1989 is Embassy estimate
3/ Annual growth rate, except for 1989 which is first half of 1989 over first half of 1988.
4/ Interbank funds rate; 1989 rate is average of first nine months.
5/ FY77/78 equals 100
6/ total of U.S. and other country aid pledged at the annual Intergovernmental Group Indonesia (IGGI) donors' meeting.

1. General Policy Framework

Global economic developments have been a major factor influencing the Indonesian Government's current policy stance. In response to declining oil prices in the 1980s, Indonesia curtailed government spending, tightened monetary expansion, and adopted an exchange rate policy aimed at improving the competitiveness of the rupiah. In addition, the Government has implemented a wide range of reforms aimed at restructuring the economy towards greater market orientation; the measures are known as "deregulation" reforms because of their emphasis on reducing burdensome regulations and administrative control.

Indonesia has reaped good results from these policies. Over the past five years, real gross domestic product (GDP) has increased at an average rate of five percent; 1988 growth approached six percent. Inflation has been held to single-digit levels. For the past two years, the current account deficit has been below $2 billion, well within Indonesia's financing capacity. The $2.4 billion deficit foreseen for 1989 is manageable as well. Aided by large amounts of foreign assistance, the Government remains current on its heavy foreign debt obligations, and has maintained a convertible currency for both the current and capital accounts. In FY1981/82, oil and gas exports accounted for 80 percent of export revenues and 70 percent of tax revenues; by FY1988/89, strong growth in non-oil and gas exports and tax reform brought these ratios down to less than half. Non-oil sector foreign investment approvals during 1988 amounted to over $4 billion, a 20-year high.

The challenges for the future, however, remain formidable. While the rate of population increase has been reduced to a little above 2 percent, an estimated 2.3 million people will enter the work force each year. The Government estimates that creating jobs for them will require GDP growth of five percent or better for the foreseeable future. A second challenge will be completing and consolidating deregulation reform. Entrenched interests and restrictive regulations in certain sectors continue to pose obstacles to making the economy more flexible and efficient. The Government, however, remains fully committed to deregulation, and more deregulation packages are in preparation.

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Fiscal Policy: The Government since FY1983/84 has pursued a generally tight fiscal policy aimed at reducing domestic demand and curbing imports. Domestic resources available for development are limited. As government spending financed through domestic borrowing is prohibited, the Indonesian authorities are required in principle to maintain a balanced budget. Moreover, external debt payments and government salaries together account for about 80 percent of operating expenditures. Although efforts are underway to improve tax collections, present circumstances force the Government to rely almost exclusively on foreign assistance for the funding of its development programs.

Monetary Policy: The Government controls the money supply through the purchase and sale of Central Bank certificates of deposit and through the allocation of credit to state banks. It also provides liquidity credits to financial institutions lending in target sectors; this program has, however, been shrinking in recent years. In 1988, reserve requirements were cut from 15 percent to 2 percent. There are no capital controls in Indonesia.

2. Exchange Rate Policies

The Government has maintained the convertibility of the rupiah since the 1960s; there are no foreign exchange controls. The Government gauges the rupiah's exchange rate based on a basket of major trading currencies, including the dollar. Current policy is to maintain the competitiveness of the rupiah through a gradual devaluation against the dollar, at a rate of about five percent a year. In a recent policy change, the Central Bank will no longer defend a given exchange rate, but will intervene as required to maintain trading in the rupiah between specified floor and ceiling rates. The exchange rate on October 30, 1989 was 1,790 rupiah per U.S. dollar.

3. Structural Policies

Pricing Policies: In general the Government does not intervene directly to set prices, but allows the market to determine price levels. In some cases, business associations, with government support, establish prices for their products. Direct government subsidies are confined to certain specified goods such as fertilizers and petroleum products. The Government is committed to reducing subsidies for agricultural inputs over time. Subsidies for pesticides were removed on January 1, 1989 and a reduction in the fertilizer subsidy was announced in October 1989. In order to promote food self-security, the Government enforces a system of floor and ceiling prices for certain food products.

Tax Policies: Both individuals and businesses are subject to income taxes; the maximum rate is 35 percent on annual earnings in excess of Rp 50 million (about $28,000). A value-added tax (VAT) of 10 percent was implemented on April

1, 1985. Companies can apply for exemption from or a rebate on import duties and VAT paid on imports used to produce exports. In November 1988, in an effort to equalize the tax treatment between bank and capital market instruments, the Government implemented a withholding tax of 15 percent on interest earned on bank time deposits. Indonesia and the United States signed a double taxation agreement in July 1988. The Indonesian Government has completed its constitutional requirements to allow the agreement to come into force; the treaty is still awaiting ratification hearings by the U.S. senate.

Regulatory Policies: Since the early 1980s, the Government has introduced a number of policy changes, shifting to a more market-oriented, competitive orientation with reliance on non-oil exports in the external sector. Most of these policy changes involved deregulation measures designed to make the economy more efficient and the industrial base more competitive. One element of these reform efforts was to replace non-tariff barriers to imports with more transparent tariffs. Another set a measures sought to encourage investment in the export sector. Financial sector reforms seeks to mobilize domestic capital efficiently.

4. Debt Management Policies

Indonesia's medium and long term foreign debt, both official and private, totals about $50 billion. In 1989, Indonesia will pay around $4 billion in principal payments and $2 billion in interest payments, or about 40 percent of its projected total export earnings.

Notwithstanding the heavy debt burden, a number of positive factors are worth noting. First, the share of concessional debt is high compared with other developing countries and the share of debt carrying variable interest rates is low. Second, net transfers of external assistance have risen sharply in recent years while net additional commercial credits have fallen, improving the terms and structure of Indonesia's external debt. Last, all indications are that the growth in debt service will slow considerably over the next five years, because the enlarged debt burden of the past several years was due to the combination of unusually large repayments coming due on commercial loans from the early 1980s and the sharp appreciation of the yen.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: Since 1986, the Indonesian Government has relaxed or eliminated import licensing requirements on a wide range of products; tariffs and surcharges have often replaced licenses as the preferred method of protecting certain domestically produced goods. Remaining import licensing requirements add a degree of protection to domestic producers, but may be waived in some cases for companies importing goods to be incorporated into subsequent exports.

INDONESIA

Services Barriers: Services barriers are numerous, but reductions have been enacted, particularly in the financial sector. Since October 1988, foreign banks have been permitted to form joint ventures with Indonesian banks; paid-in capital requirements for the joint venture banks are higher than for new Indonesian banks (rp 50 billion or approximate $28 million versus rp 10 billion or $5.6 million). Existing 100 percent foreign-owned bank branches are now permitted to open sub-branches in six selected major cities besides Jakarta.

Foreign life insurance companies and, as of December 1988, foreign non-life insurance companies, are permitted to form joint ventures with local partners. Paid-in capital requirements for joint venture companies are higher than for Indonesian companies (for life insurance, capitalization is set at rp 4.5 billion or $2.5 million for joint ventures and rp 2 billion or $1.1 million for purely Indonesian companies; for non-life companies, the figures are rp 15 billion or $8.4 million versus rp 3 billion or $1.7 million). Foreign non-life insurers believe that the capitalization level is too high to permit a reasonable return on investment.

Foreign companies incorporated in Indonesia may issue stocks and bonds through the capital market. Since September 1989, foreigners have been permitted to purchase up to 49 percent of all shares listed on the stock exchange except shares in Indonesian banks. Foreign securities houses may form joint ventures and broker and trade stocks and bonds; although existing joint ventures may underwrite issues, new licenses have yet not been granted to new foreign applicants.

Foreign attorneys may serve as consultants and technical advisors in local law firms and companies. However, lawyers are admitted to the bar only if they have graduated from an Indonesian legal faculty or from an institution recognized by the Government of Indonesia as equivalent.

Air Couriers: Air express companies have not been permitted to own equity in firms providing courier services. However, they may arrange with local firms to provide the services in their name and on their behalf; expatriate staff may be seconded to the local firm. The May 1989 negative investment list (which specifies areas closed to new domestic and/or foreign investment) does not specifically prohibit foreign equity investment in air courier services; at least one foreign firm operating through a local company is optimistic that it will be able to take an equity position in the future.

Indonesia imposes a quota on the number of foreign films which can be imported in a given year and restrictions are placed on their distribution within the country. Foreign feature films are banned on television. All imports are through one of four approved importers and all dubbing into the Indonesian language must be done locally.

Standards, Testing, Labeling, and Certification: U.S. pharmaceutical companies have complained that Indonesian health authority administrative delays in registering new foreign firm pharmaceutical products have postponed their marketing new products. Under the national drug policy of 1983, foreign firms may register prescription pharmaceuticals only if they both incorporate high technology and are products of that company's own research. All other products must be licensed to local companies.

Investment Barriers: Although deregulation has reduced the differences in treatment between foreign and domestic investors, national treatment for foreign investments does not exist. Foreign investment must be in the form of joint ventures (with the qualified exception of new investment in the electronics industry on Batam Island) and, with very limited exceptions, the foreign partners must divest over a period of time to achieve majority Indonesian ownership. A November 1988 deregulation package permitted joint ventures to wholesale their products, but retailing remains prohibited to foreign investors.

The Government makes an annual determination of areas in which further foreign and/or domestic investment will be permitted; in May 1989, this determination was announced in the form of a 75 item negative list which replaced the detailed positive list employed previously. Specific regulations govern investment in the mineral, oil, natural gas, and forestry sectors. There are several provisions under which foreigners may exploit or occupy land in Indonesia, but only Indonesians may own land. There are numerous restrictions on the employment of expatriates by both domestic and joint venture companies; companies are encouraged to draw employees from Indonesia's large labor pool.

Government Procurement Practices: Most large government contracts are financed by bilateral or multilateral donors; projects financed by development assistance usually specify procurement rules. For large projects funded by the Government, international competitive bidding practices are generally followed. When possible, the Government requires concessional financing which at least meets the following criteria (called "inpres 8" terms): 3.5 percent interest rate; and a 7-year grace period followed by an 18-year repayment period. Foreign firms bidding on certain government-sponsored construction or procurement projects must agree to purchase and export the equivalent of the contract's value in selected Indonesian products. Government departments and institutes and state and regional corporations are required to utilize domestic goods and services to extent that they are available (this is not mandatory for procurement of goods and services financed by foreign aid).

Customs Procedures: The Government of Indonesia has contracted with the Swiss firm, Societe Generale de Surveillance, for pre-inspection of imports.

INDONESIA

6. Export Subsidies Policies

Indonesia has joined the GATT Subsidies Code and has reduced subsidies on export credits in phases. Indonesia is committed to eliminate the subsidy on export credits for non-primary products by April 1990. As part of its drive to increase non-oil and gas exports, the Government permits restitution of VAT paid by a producing exporter on the purchases of materials for manufacturing export products; exemptions from or drawbacks of import duties are available for goods incorporated into exports.

7. Protection of U.S. Intellectual Property

Indonesia is a party to the Paris Convention for the Protection of Industrial Property. It is not a signatory to the Berne Convention, but is considering adhering to it.

Indonesia's excellent progress in intellectual property protection has continued in the past year. A bilateral copyright agreement between the United States and Indonesia was signed on March 22, 1989 and became effective on August 1, 1989. In addition, on October 13, 1989 the Indonesian Parliament passed Indonesia's first patent bill; it will not take effect until August 1, 1991.

The 1988 ban on pirated audio cassettes was extremely successful and has generally been enforced by the Indonesian authorities. As of August 1, 1989 pirated textbooks and software have been removed from general circulation. It is still too early to judge the extent to which these products will still be available in back rooms. No complaints have been filed to date by foreign copyright holders.

While the bilateral copyright agreement has significantly reduced losses from pirated property and lost revenues, losses to U.S. copyright owners are still estimated at approximately $100 million per year.

The recently passed patent bill includes product and process protection for both pharmaceuticals and chemicals. The implementing regulations that must still be drafted may address remaining points of concern.

Indonesia's intellectual property working team has now turned its full attention to the amendment of the Trademark Bill. They hope to produce a draft in 1990. The United States has noted its concerns about the existing bill such as the lack of provisions to register service marks and to protect well-known marks. Currently there is no provision for opposition to the registration of a mark. There also is no provision for justified non-use of a mark such as import restrictions which result in non-use. Enforcement of trademark protection has continued to be a serious problem for foreign trademark holders; however, court decisions have continued to favor U.S. and other foreign holders of trademarks.

INDONESIA

8. Worker Rights *

a. The Right of Association

Indonesian private sector workers are organized in a single national body, the All Indonesia Workers Union (SPSI), the only union or federation that meets the requirements for legal recognition. Nevertheless, a number of other groups and professional organizations function openly as quasi-trade unions and operate openly. Unions draw up their own constitutions and rules and elect their representatives. The Government views unions as an essential component of its development plans, with the role of increasing worker participation and maintaining industrial peace.

All unionized workers have a legal right to strike, except those in the 21 industries designated as vital to the national interest. Private sector parties submit their disputes to tripartite administrative tribunals. With a few exceptions, civil servants and employees of state enterprises must belong to the Indonesian Corps of Civil Servants (KORPRI), a nonunion association, and do not have a right to strike. By government regulation, a separate and compulsory dispute resolution and appeals process exists for civil servants and public employees to protect their interests.

b. Right to Organize and Bargain Collectively

Collective bargaining is guaranteed by law. Once an employer is notified that 25 employees have joined the union it is under statutory obligation to bargain, and the union has an absolute right to conclude a labor agreement. Workers can organize without restriction in private enterprises. There are no laws which prevent bargaining from taking place in export processing zones. If the state has a partial interest, the enterprise is considered to be in the public domain, but this does not necessarily limit organizing. There are a significant number of government/private joint ventures which have labor unions and/or collective bargaining units. Regulations forbid employers from prejudging or harassing employees because of union membership.

c. Prohibition of Forced or Compulsory Labor

Indonesia is a party to ILO Convention 29 on forced labor, which is strictly prohibited and does not exist in practice.

d. Minimum Age for Employment of Children

Regulations acknowledge children under 14 who for socio-economic reasons must work. Such employment must be with the permission of the child's parent or guardian. Dangerous and night work are specifically forbidden. Work is limited to four hours per day at the prevailing wage rate. Employers are required to ensure that these children have access to elementary education within the framework of the compulsory schooling law. The Department of Manpower conducts periodic inspections and imposes sanctions for violations.

e. Acceptable Conditions of Work

The law establishes 7-hour workdays and 40-hour workweeks with a half-hour of rest for each 4 hours of work. Minimum wages are established by region and by sector and subsector in the region by regional Wage Councils working under the supervision of the National Wages Council. Wages do not account for total labor costs. An extensive body of labor law and regulations provide workers with vacation pay, maternity leave, public holidays, overtime and sick leave pay, severance and service pay, etc. Workers also receive transportation and food allowances, and holiday bonuses. Workers in more modern facilities receive health benefits, social security contributions and free meals. All enterprises of more than 25 workers with a monthly income greater than one million rupiah must enroll their employees in the state-run Social Insurance Program. An extensive body of law and regulations provides for minimum standards of industrial health and safety.

f. Rights in Sectors with U.S. Investment

Application of legislation and practice governing worker rights is largely dependent upon whether a particular business or investment is characterized as private or public. U.S. investment in Indonesia is concentrated in the petroleum (oil and gas), primary and fabricated metals (mining) and plantation estate (rubber) sectors.

Investment in the petroleum sector is largely in the form of production-sharing contracts between the foreign investor and the state oil and gas company, Pertamina, which retains control over all activity. All employees of foreign companies under this arrangement are considered to be state employees and thus all legislation and practice regarding state employees generally applies to them. Employees of foreign companies operating in the petroleum sector are organized into KORPRI, the Indonesian Corps of Civil Servants. Employees of these state enterprises enjoy most of the protection of Indonesian labor laws except that they do not have the right to strike, join labor organizations or negotiate collective agreements. Some companies operating under other contractual arrangements, such as contracts of work, do have unions and collective bargaining agreements.

Regulations pertaining to child labor and welfare are applicable to employers in all sectors. Employment of children and concerns regarding child welfare are not considered to be major problem areas in the petroleum and fabricated metals sectors.

Legislation regarding minimum wages, hours of work, overtime, fringe benefits, health and safety etc. applies to all sectors. The best industrial and safety record in Indonesia is found in the oil and gas sector.

INDONESIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		2,638
Total Manufacturing		92
Food & Kindred Products	7	
Chemicals & Allied Products	59	
Metals, Primary & Fabricated	8	
Machinery, except Electrical	4	
Electric & Electronic Equipment	-3	
Transportation Equipment	0	
Other Manufacturing	17	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Indonesia country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

JAPAN

Key Economic Indicators

(Trillions of Japanese yen (Y) unless otherwise noted)

	1987	1988	1989 (est)	
Income, Production, and Employment				
Real GNP	312.4	330.2	345.9	1/
Real GNP growth rate (pct)	4.5	5.7	4.8	1/
Real GDP by sector				
Manufacturing	107.9	n/a	n/a	
Agriculture/fisheries	9.3	n/a	n/a	
Per capita income (mils yen)	2.42	n/a	n/a	
Labor force (millions)	60.8	61.7	62.4	2/
Unemployment rate (pct)	2.8	2.5	2.3	2/
Money and Prices				
Money supply (M1) (yr-end)	103.0	111.8	109.3	3/
Commercial interest rates (10-yr Govt bond - yr-end)	5.00	4.81	4.92	4/
Savings rate (pct)(8)	23.6	24.3	20.8	2/
Investment rate (pct)(9)	28.7	30.4	n/a	
CPI (1985 = 100)	100.7	101.4	103.0	2/
Wholesale price index (1985=100)	87.5	86.6	88.2	2/
Exchange rate (yen/$)	144 6	128.1	135.4	5/
Balance of Payments and Trade				
Total exports FOB	33.3	33.9	36.9	6/
Exports to U.S. FOB	12.1	11.5	13.7	6/
Total imports CIF	21.7	24.0	28.0	6/
Imports from U.S. CIF	4.6	5.4	7.5	6/
Aid to other countries (bil $)	7.5	9.1	9.6	
External public debt	n/a	n/a	n/a	
Annual debt service payments	n/a	n/a	n/a	
Gold and forex reserves (bils $)				
Year-end	81.5	97.7	88.3	4/
Balance of payments				
Current account	12.5	10.2	9.1	7/
Trade account	13.9	12.2	11.9	7/
Services trade account	- 0.8	- 1.4	- 2.2	7/
Long-term capital account	-19.8	-16.8	- 9.5	7/
Overall account	- 4.3	- 3.8	- 4.1	7/

1/ OECD outlook
2/ Jan-Jul average
3/ end of June
4/ end of August
5/ Jan-Sep average
6/ Jan-Sep, annualized
7/ Jan-Aug, S.A.A.R.
8/ salaried-workers households
9/ domestic total fixed capital formation/nominal GNP

JAPAN

1. General Policy Framework

The Japanese economy, rebuilt from post-World War II ruins, was in 1989 the world's second largest. Gross national product (GNP) in nominal terms of $2.9 trillion is 59 percent of the United States' and more than the combined GNPs of France, Britain and Italy. A mature industrial state with some of the world's most competitive manufacturing and high technology industries, Japan continues to show great vitality. Persistently huge external trade surpluses have evoked steadily mounting international economic and political pressures on Japan to adopt policies that accelerate structural adjustment. Frustrated trading partners point out that Japan is also home to complex, and sometimes inefficient, transport, agricultural, construction and distribution sectors which it hesitates to expose to foreign competition.

A transition in Japan's economy appears to be underway. Despite a rising yen which squeezed export industries severely, Japan is recording strong real economic growth with low inflation and low unemployment--growth led over the past two years by domestic rather than external demand. Imports are increasing--averaging about 15 percent year-to-year growth over the past year--and the share of manufactured goods has risen from about one-fifth in 1982 to about one half this year.

The Japanese current account balance in 1988, after a four-year upward spiral, declined in yen terms, and subsequently in dollar terms. Government monetary policy has played an important role recently in sustaining expansion of Japanese domestic demand, while falling import prices and a measure of deregulation have kept inflation at bay. The Government has pursued relatively tight fiscal policies since 1982 to constrain growth in government debt. However, under pressure from other Summit countries to contribute to the reduction of international imbalances, the Government in June 1987 initiated a $35 billion multi-sector public works spending package and followed up with tax cuts worth about $10 billion. Prior to May 1989, monetary policy could have been described as relatively easy. Since that date, the Bank of Japan has raised the discount rate three times--most recently on December 25, 1989 to 4.25 percent. Monetary authorities seek to stabilize consumer spending and corporate investment, which are the mainstays of the current boom.

Widespread public opposition to efforts to reduce the Government's reliance on direct taxation peaked in summer 1989. In late 1988, the Diet (legislature) had approved bills reducing personal and corporate income tax rates, and introducing both an indirect VAT-type tax and a capital gains tax on individuals' securities transactions. Consumers signaled strongly their disapproval of the three 3 percent consumption tax. In late 1989, the Diet moved to reconsider the scope and incidence of this tax. In the short-term the impact of the new tax on imports was not severe. The tax was intended in the long-term to broaden the tax base and thereby improve the Government's ability to respond to growing claims on the national purse in one of the world's fastest-aging societies.

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In recent years, key to Japan's economic policy is its commitment to coordination of economic policies with other Summit countries, as agreed at the 1986 Tokyo Economic Summit, and to strengthen its role in fostering sustained, inflation-free world growth, including in developing countries. Central to the latter role is increasing official development assistance (ODA) flows. Japan, which will probably be the world's largest donor in 1990, has committed to double ODA to at least $50 billion over the five years 1988-92 and to improve the "quality" of that aid by boosting the share of grant and untied aid.

Japan is also stimulating new financial flows to highly indebted countries through its $20 billion yen recycling program, which includes loans to debtor countries as well as increased funding for international financial institutions and multilateral development banks. Japan's private sector continues to play the major role in recycling Japan's large current account surpluses; by the end of 1988, for example, Japanese investors had invested about $180 billion in the United States. Of that amount, direct investment totalled $53 billion, second after the United Kingdom ($102 billion) and ahead of the Netherlands ($49 billion).

2. Exchange Rate Policies

Japan ended most foreign exchange controls in the 1970s, culminating in a major simplification of its foreign exchange and foreign trade control law in 1980. Currently, pursuant to the international understandings launched at the 1986 Tokyo Summit and refined since then, Japan actively coordinates exchange rate policies with the U.S. and its other Group of Seven (G-7) partners. The appreciation of the yen since 1985 has increased the competitiveness of American products and is contributing to the reduction of Japan's enormous external imbalances. At this point, although import price reductions have had some impact in moderating domestic price levels, there remains room for further pass-through of those benefits to consumers. This could stimulate additional demand for imports.

3. Structural Policies

The Japanese economy is undergoing rapid structural change. Fast-growing domestic demand, currently fueled by both personal consumption and capital investment, supplanted external demand as the engine of Japanese economic growth in 1986-89. This has primarily been a market-driven response to the fundamental exchange rate realignment of the last four years. Another central factor has been the focus on deregulation of the economy, particularly privatization of public telecommunications and railway companies and simplification of product standards. Despite progress in this area, Japan's economy remains heavily regulated. Government regulations traditionally have reinforced business practices that restrict competition and thus keep prices high. Price controls remaining on certain agricultural products, and bureaucratic obstacles to the entry of new firms into businesses like trucking, retail sales and telecommunications have similarly slowed the economy's structural adjustment.

The slowness of Japan's adjustment is a major source of friction with its trading partners. To accelerate structural adjustment, on July 14, 1989, President Bush and Prime Minister Uno launched the Structural Impediments Initiative (SII) to "identify and solve structural problems in both countries that stand as impediments to trade and balance of payments adjustment, with the goal of contributing to reduction of payments imbalances."

The U.S. side has identified six areas of concern in Japan's economy--savings and investment, land use, distribution system, pricing mechanism, exclusionary business practices, and "keiretsu" special business relationships. The Japanese side in turn proposed study of American policies in seven areas that bear on U.S. competitiveness.

Vigorous implementation of more competition-oriented domestic economic policies in these six areas might translate Japan's great productivity into markedly higher living standards for its 124 million citizens, and stimulate greater demand for imports. Most of the U.S. proposals echo themes sounded from time to time by Japanese economists and commentators. In that regard, many Japanese newspapers and consumers have focused on the often wide discrepancy between high domestic prices and low foreign prices for the same product.

Expenditure policy has given an indirect boost to the competitiveness of a number of Japanese industries, particularly the construction and steel industry which benefitted most directly from public works spending. In the past, the Government directed considerable public and private resources to targeted priority areas, but has been moving away from such industrial policy measures, partly in response to criticism of export-oriented policies by Japan's trading partners. The Japanese Government continues to promote high technology cooperation among firms and plays a direct role in organizing these efforts. Japan also continues to use off-budget resources (funds accumulated through various government-sponsored savings, insurance, and pension systems) sometimes mixed with small amounts of appropriated funds for both special purpose lending institutions and government-supported investment projects, including government-private sector efforts.

4. Debt Management Policies

Japan is the world's largest net creditor. It is an active participant together with the United States in international discussions of the developing country indebtedness issue in a variety of fora.

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5. Significant Barriers to U.S. Exports and Investment

Over the past ten years, most formal barriers to the import of goods and services have been removed by the Government, often under pressure from the U.S. and other foreign nations. As noted elsewhere in this report, reform, deregulation and change are the key words in Japan today. Japan's average tariff rate is around two percent and import quotas remain on only nineteen products. Japan's agreement in June 1988 to phased liberalization of beef and citrus imports successfully addressed one of the last explicit border measures restricting imports into Japan. Japan has declared its intention to table its rice program, including restrictions on imports, in the context of a multilateral reform of agricultural policies in the GATT Uruguay Round.

Current obstacles to selling into the Japanese market do not fit into conventional trade barrier categories. Some are diffuse and deeply-rooted in Japan's insular, non-Western traditions. For example, the labyrinthine distribution system significantly raises the cost of entry into the Japanese market, though some U.S. exporters have shown that this obstacle is not insurmountable. In some Japanese industries American firms have found that even with competitive price, quality and service, it is extraordinarily difficult to crack long-established relationships between suppliers and buyers. American exporters must also cope with pockets of resistance to greater imports within government ministries and allied business associations. Such resistance can rarely stop change, but it can slow it in the name of "smooth adjustment" and "avoidance of market disruption." This hinders market forces which, if allowed to proceed naturally, would probably facilitate more imports, and thus has been a source of increasing bilateral friction.

Teamwork among U.S. exporters, U.S. government negotiators, and pro-reform, pro-deregulation Japanese is beginning to produce increased sales in once impenetrable market sectors. Japanese export industries and their bureaucratic and political associates often lobby for more open Japanese markets. Increasingly, moreover, foreign firms are targeting young Japanese consumers, sensitized by the high yen and sophisticated by greater exposure to life abroad. Inventive Japanese entrepreneurs are finding ways to cater to their demand for quality imported goods at reasonable prices.

In the years after World War II, Japan's Ministry of International Trade and Industry (MITI) strictly controlled imports and exports to conserve foreign exchange and to promote critically important industries. Technically speaking, any goods brought into Japan must still have an import license. For the most part these are now granted pro forma and do not impede trade, although companies still must submit import/export plans. Restrictions remain on imports of fish and fish products, leather footwear (for which Japan has paid compensation), and some agricultural commodities, most notably rice. These are being addressed in bilateral and GATT fora; progress is slow.

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Impediments to trade in services have become prominent on the U.S.-Japan agenda in recent years as barriers to trade in goods have fallen. Success has been achieved in securing Japanese commitment to foreign participation in Japan's legal services (1987), construction/public works (1988) and telecommunications (Ivan-1988, cellular phones-1989) markets. These commitments are closely monitored. A November 6, 1989 Civil Aviation Agreement will permit the biggest single expansion of passenger and cargo air service since 1952. Motion picture distribution is unimpeded. In recent years Japan has also made a number of liberalizing moves in the area of financial services and foreign institutions are present in large numbers. However, non-barrier problems for foreign financial institutions remain under review in the U.S.-Japan Working Group on Financial Markets.

Restrictions on establishing inland trucking operations continue to restrict the ability of U.S. ocean carriers to provide efficient distribution services to inland points. Recently, the Japan Harbor Transport Association established in conjunction with Japanese carriers a 5 billion yen special harbor fund to which U.S. carriers are required to contribute.

Japanese legal restrictions on foreign investment are not overly restrictive, but limitations remain in specified sectors: arms, gunpowder, aircraft, space development, atomic energy, manufacture of narcotics and vaccine, agriculture, forestry and fisheries, petroleum refining, leather, mining, and telecommunications. Structural and institutional barriers to foreign acquisitions are formidable, however, and include ownership patterns tied to business dealings, ties between government and certain industries, difficulties accessing the distribution system, and a reluctance to break long-term supplier and employee relationships. Hostile takeovers of the management of another company do not occur, in large part because cross-shareholdings among companies with business relationships are extensive and make it hard to achieve control by bidding for stocks in the market. All these act to limit the ability of outsiders, whether foreign or Japanese, to acquire a company. Recent exceptions are Federal Express' 1988 purchase of a trucking company and the 1989 acquisition by a British firm of the ailing electronics firm, Sansui.

Government procurement in Japan conforms to the letter of the GATT Procurement Code. The U.S. seeks more market-oriented procurement practices in some areas. The increased transparency negotiated via the 1987 supercomputer procurement arrangement has not resulted in U.S. firms winning any supercomputer sales. The only public sector supercomputer sales by U.S. firms have been two "directed" sales. Similarly, the practical result of Japan's national space policy emphasis on autonomy is that there has been no sales of U.S. satellites to government entities. At U.S. initiative, bilateral discussion of supercomputer and satellite market access issues began in September, 1989.

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The Government of Japan has simplified, harmonized and in some cases eliminated restrictive standards in order to follow international practices. This process is not complete. Some Japanese industry associations support unique standards, often justified on non-economic grounds such as health or safety. Building standards, for example, limit the market opportunities for U.S. exports of wood products, a matter now under active bilateral discussion. The exceptionally small number of permissible food additives means that many U.S. processed food products cannot enter Japan.

U.S. officials deal, usually successfully, with a stream of small trade problems by negotiating with elements of the Government bureaucracy that are often protective of the industries they regulate. For example, the 1985-87 market-oriented sector-specific (MOSS) talks dealt with such barriers wholesale in five key sectors: automotive parts, electronics, forestry and paper products, medical and pharmaceutical products, and telecommunications. As a 1988 U.S. General Accounting Office study concluded, these talks succeeded--they substantially reduced technical sectoral barriers to trade and set in motion a continuing dialogue. MOSS follow-up groups periodically bring together working level Embassy officers, U.S. industry representatives and Japanese government officials to discuss remaining and/or newly discovered issues. The workmanlike, non-confrontational atmosphere of these sessions make them an efficient alternative to more formal high-level trade talks.

6. Export Subsidies Policies

Japan adheres to the Organization of Economic Cooperation and Development (OECD) export credit arrangement, including the agreement on the use of tied aid credit. The Government of Japan subsidizes exports as permitted by the OECD arrangement which allows softer terms for export financing to developing nations. Japan has virtually officially eliminated "Japan tied" aid credits and now extends about three-quarters of its loan aid under untied terms. In fact, however, U.S. exporters face difficulties in competing due to the use of (1) "less developed country (LDC) untied aid" (bidding is open only to Japanese and LDC firms) and (2) tied feasibility studies (provided by grant aid) for untied (loan aid) projects which result in project specifications more suited to Japanese than U.S. bidders. These programs are the subject of continued discussions within the OECD.

7. Protection of U.S. Intellectual Property

Japan is a party to the Berne and Universal Copyright and the Paris Industrial Property Conventions as well as to the Patent Cooperation Treaty. Japan's intellectual property rights regime affords national treatment to foreign entities.

The U.S. and Japan agree that uniform intellectual property rights standards and better enforcement are needed and the two governments are negotiating more closely harmonized systems in a number of fora, including the Uruguay Round of the GATT, WIPO patent law harmonization, and in the U.S.-Japan Intellectual Property Rights Working Group. At present, however, there remain major differences in U.S. and Japanese intellectual property rights systems, which led to Japan's inclusion on the "Priority Watch List" of countries of established under the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act.

Japanese patent law is modeled after European patent laws and thus varies from U.S. law in a number of respects. These differences create problems for U.S. inventors unfamiliar with the Japanese patent system. Major differences--including provision for deferred examinations of patent applications, and opposition to patent applications before the grant of the patent--result in delays in the issuance of patents. An additional divergence is the Japanese Patent Office practice of awarding generally narrow patents. This practice tends to further expand the number of applications and exacerbate the backlog of unexamined patent applications.

Further, as a civil law country, Japanese courts interpret patent claims without reference to a "doctrine" of patent claim "equivalents," which U.S. courts use. This difference, and the fact that civil law in Japan precludes obtaining direct evidence through the discovery process, can frustrate U.S. inventors suing for patent infringement in Japan.

Trademark applications can take three to four years to process and infringement carries no penalty until an application is approved. Japanese trademark law does not cover service marks. Service marks already widely known in Japan can be protected under the Unfair Competition Law, but new service marks are not yet protectable. The Japanese Patent Office has initiated study of a service mark system.

Japanese copyright practice does not protect algorithms, programming language, and rules. Courts may therefore treat each infringement case on its own merits rather than by reference to an absolute standard. They tend, for example, to be more tolerant of apparent "reverse engineering" and this is an important bilateral issue.

In 1988, the Government of Japan passed new legislation which facilitates prosecution of suspected video pirates and extends the period of protection for audio copyright holders. Nonetheless, U.S. motion picture interests are concerned about the public showing of illegal video cassettes in bars, hotels, restaurants, etc. They claim that 40 to 50 percent of the video cassette market is pirated product. The U.S. motion picture industry estimates its annual losses of sales because of piracy to be $220 to $225 million. Pre-1978 foreign sound recordings are not protected and a limited rental right of one year is extended only to recordings produced in Japan.

JAPAN

8. Worker Rights *

a. The Right of Association

The right of association as defined by the International Labor Organization (ILO) is protected in Japan.

b. The Right to Organize and Bargain Collectively

The right of workers to organize, bargain and act collectively is assured by the Japanese Constitution. An estimated 26.6 percent of the active work force is unionized. Unions are free of government control and influence. The right to strike is implicitly assumed by the Constitution and is exercised frequently. Public employees do not have the right to strike; they do have recourse to mediation and arbitration to resolve disputes. In exchange for a ban on their right to strike, government employees' pay raises are determined by the Government, based on a recommendation by an independent national personnel authority.

c. Prohibition of Forced or Compulsory Labor

The Labor Standards Law prohibiting the use of forced labor is vigorously enforced.

d. Minimum Age of Employment of Children

Under the revised 1987 Labor Standards Law, minors under 15 may not be employed and those under 18 may not be employed in dangerous or harmful work. Child labor laws are rigorously enforced by the Labor Ministry's Inspection Division.

e. Acceptable Conditions of Work

Minimum wages are set regionally, not nationally. The Ministry of Labor effectively administers various regulations and laws governing occupational health and safety, principal among which is the Industrial Safety and Health Law of 1972.

f. Rights in Sectors with U.S. Investment

Internationally recognized worker rights standards, as defined by the ILO, are protected under Japanese law and cover all workers in Japan. U.S. capital is invested in all major sectors of the Japanese economy.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		3,468
Total Manufacturing		7,876
Food & Kindred Products	382	
Chemicals & Allied Products	2,430	
Metals, Primary & Fabricated	197	
Machinery, except Electrical	2,630	
Electric & Electronic Equipment	852	
Transportation Equipment	630	
Other Manufacturing	753	
Wholesale Trade		3,473
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		14,817

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Japan country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

REPUBLIC OF KOREA

Key Economic Indicators

(Billions of Korean won (W) unless otherwise indicated)

	1987	1988	1989 (est)
Income, Production, and Employment			
Real GNP (constant 1985 pcs)	99,447.4	111,574.8	119,385.0
Real GNP growth rate (pct)	12.8	12.2	7.0 1/
Real per capita GNP (thousands Won 1985 prices)	2,399	2,665	2,824
Current GNP	105,629.8	123,579.2	137,543.6
By sector			
Agric/forestry/fisheries	11,353.3	13,576.7	15,477.4
Mining/manufacturing	35,697.2	40,584.8	43,628.7
Construct/electr/gas/water	11,266.1	13,924.1	16,472.0
Other services	47,313.2	55,493.6	61,965.5
Labor force (000s)	16,873	17,305	17,963
Unemployment rate (pct)	3.1	2.5	3.0
Money and Prices			
Money supply (M1)	8,644.4	9,984.3	11,382.1
Commercial bank rate (pct)	11	11	1
Savings rate (pct)	36.3	37.7	35
Investment rate (pct)	29.4	29.9	30
Consumer price index (1985 = 100)	105.9	113.4	120.2
Wholesale price index (1985 = 100)	99.0	101.7	103.7
Exchange rates (won/$)			
Average	822.4	730.6	670
Year-end 2/ 3/	792.3	684.1	670
Balance of Payments and Trade			
Total exports FOB	38,884	44,344	42,880
Exports to U.S.	15,059	15,638	14,405
Total imports CIF	33,735	37,853	41,540
Imports from U.S.	7,203	9,320	11,055
Aid from U.S.	n/a	n/a	n/a
Aid from other countries	n/a	n/a	n/a
External debt outstanding 2/	29,277	22,795	19,430
Annual debt service payments	14,474	7,379	5,829
Gold and forex reserves 2/	2,973	9,043	12,730
Balance on current account	8,104	10,423	4,020

1/ Bank of Korea estimate.
2/ Data are for end of period.
3/ Year-end rate for 1989 (Won 670/$1.00) based on 2.1 percent Won/dollar appreciation. This year-end rate is used for statistical purposes only. It is not an exchange rate forecast. Actual exchange rate: $1.00/671.3 Won as of October 14, 1989.

Sources: Embassy estimates; Bank of Korea; Economic Planning Board; and the Ministry of Finance.

REPUBLIC OF KOREA

1. General Policy Framework

Korean economic policies in the early and mid-1980s reflected in large part Koreans' perception of their economy as underdeveloped and deficit burdened. As a result, Government economic policies emphasized rapid export-led development, protection of domestic industries, and the reduction of Korea's large external debt ($47 billion in 1985, the equivalent of more than fifty percent of GNP). The use of market mechanisms served to promote economic efficiency, but government intervention in the economy has been pervasive throughout the post-Korean war era. Restriction on foreign participation in the economy through trade and/or investment were common.

However, by 1988 Korea boasted the world's seventeenth largest economy, the fourth largest current account surplus and was the seventh largest U.S. trading partner. Real GNP growth exceeded 12 percent annually during 1986-88. Korea's trade surplus in 1988 totaled $8.9 billion on a customs clearance basis ($8.6 billion with the United States); the current account surplus reached $14.2 billion. Korea's net foreign debt (gross foreign debt less Korean foreign assets) fell to $7.3 billion at the end of 1988 (down from $35.5 billion at the end of 1985).

In 1989, Korea's rate of economic growth slowed. Korean Government officials and the business community are concerned that the "economic downturn" may signal a trend toward slow growth and declining export competitiveness. However, key business indicators suggest that the prospects for the Korean economy in the short to medium term are bright, with real GNP in 1989 estimated to be a more sustainable 7 percent (a rate that is consistent with growth rates projected by the Korean Government in its original Sixth Five-Year Economic and Social Development Plan).

At the same time, rapidly increasing domestic demand suggests Korea is entering a more mature stage of economic development, one which will see more balanced growth with less (although continued) reliance on exports as a catalyst for economic growth. Korean monetary authorities are trying to hold the inflation rate to about 5 percent; the unemployment rate for 1989 was projected to be 3 percent. The Korean Government estimates the year-end 1989 current account surplus at $7 billion; the trade surplus (on a customs clearance basis) $2 billion. U.S. exports to Korea in 1989 totaled approximately $16.5 billion, a 29 percent increase over 1988. Over the last three years U.S. exports to Korea have nearly doubled. Korea's bilateral trade surplus with the U.S. dropped approximately 42 percent to $5 billion in 1989.

During the past year, the Korean Government announced a number of economic liberalization measures, including the removal of restrictions on overseas travel and related currency control measures, further tariff reductions, the abolishing of the surveillance list and the removal of additional items from the import restricted list. The past year also has seen the implementation of previously negotiated market access agreements in areas such as insurance, cigarettes, wine, and motion pictures. With the successful negotiation of the May 1989 "Super 301" agreement, the Korean Government pledged to implement measures which should greatly facilitate foreign investment in Korea, eliminate or reduce import restrictions (i.e., border closure provisions, restrictive standards and testing requirements), and provide some further liberalization of agricultural imports. The agreement has the potential for providing significant benefits for U.S. exporters and investors. In addition, the Korean Government accepted late in 1989 disinvocation of import restrictions for balance-of-payments reasons (permitted under GATT Article 18-8) and a GATT panel report on beef imports, and further reaffirmed its intent to improve protection of intellectual property rights (see Section 7).

Korea needs to continue to move towards full support of the open, international economic system from which it has so greatly benefited. The progress made during 1989 seems to reflect a growing recognition within the Korean Government of the benefits of liberalization and of the need to be more responsive to the concerns of trading partners over restrictive trade and investment practices. This apparent change in attitude has the potential for producing a further reduction of bilateral trade conflicts not only with the United States but other aggrieved trading partners as well. However, if this is to happen, the Korean Government will have to continue to make progress in translating general principles into concrete market opening measures. In this regard, full and timely implementation of all bilateral agreements, including the "Super 301" agreement, will be a key factor.

The Korean Government's consideration of adjustments to longstanding policies affecting external economic relations is taking place as Korea's political and economic decision-making process undergoes fundamental change. Democratization has greatly increased the importance of the National Assembly in the Korean political spectrum, and the governing party is currently in a minority position in that body. Political debate on the budget and other economic issues has begun to reflect a new set of priorities in the economic arena (i.e., improved social welfare, better income distribution, and more balanced regional development). Despite a heavy defense burden, the Korean Government has successfully balanced the budget. Public sentiment supporting the expansion of Korea's social welfare system, however, could place additional demands on government spending and require adjustments in fiscal policy. Inflationary pressure, stemming from large domestic wage increases and to some extent external surpluses, continues to be a problem. Between January and September this year, labor unrest cost the economy more than $5 billion in lost production, by the Korean Government's reckoning. The Government is attempting to develop a framework for promoting more harmonious labor-management relations, but concern remains high over the prospects for another round of labor disruptions in 1990.

REPUBLIC OF KOREA

2. Exchange Rate Policies

Korean monetary authorities establish the value of the won administratively using an undisclosed basket of currencies of Korea's leading trading partners, SDRs, and "policy variables." Tight restrictions on capital flows coupled with tight monetary restraint and close control of the Korean financial sector enhance the Government's ability to control the exchange rate. The U.S. Treasury's October 1988 Report to the Congress on international economic and exchange rate policy under Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 determined that Korea manipulated the rate of exchange between the won and the U.S. dollar for purposes of preventing effective balance of payments adjustments and of gaining unfair competitive advantage in international trade. Treasury concluded that given Korea's strong underlying economic fundamentals further exchange rate appreciation within a framework of liberalized trade and foreign exchange and capital flows was clearly required. In its October 1989 report, Treasury noted that the significant decline in Korea's external surpluses in 1989 is a positive and encouraging development and that the reduction in the bilateral trade imbalance is welcome, particularly as it reflects the expansion of U.S. exports to Korea. However, Treasury concluded there still was evidence of exchange rate manipulation, and that continued reduction of Korea's external surpluses was necessary.

In September 1989, the Ministry of Finance announced that Korea would introduce a "market middle rate exchange system" next year. Korean financial authorities characterized the move as a transition towards the implementation of a floating exchange rate system "after 1992." As a first step, the Korean Government, effective September 20, allowed banks to set telegraphic transfer rates for U.S. dollars within a 0.35 percent spread from the rate determined by the Bank of Korea for transactions larger than $100,000, and within a 0.4 percent band for transactions less than $100,000. From December 1988 to April 1989, the won (expressed in terms of foreign currency) appreciated by 2.7 percent against the U.S. dollar, following the 15.8 percent appreciation in 1988. In the April-September 1989 timeframe, the won depreciated slightly (0.6 percent) against the U.S. dollar. As of September 1989, the Korean won had appreciated 33.1 percent against the U.S. dollar since September 1985.

3. Structural Policies

Korea's economy is based on private ownership of the means of production and distribution. The Government, however, has actively managed the Korean economy through a variety of means including comprehensive economic development plans, regulatory policies, price, credit, exchange rate and capital controls, and special economic measures. Many of the problems U.S. exporters have experienced in Korea have been rooted in the thicket of regulations and interpretations employed in — complicated licensing requirements, the inspection and approval of industrial goods, and "special laws" which have given line ministries broad powers to "stabilize" markets by controlling imports. Korean Government intervention also has included directing the flow of foreign investment to certain priority sectors. In the services sector, even in those industries where foreign investment has been liberalized, investors have encountered a formidable regulatory regime that often has limited their operations. Under the provisions of the "Super 301" agreement, the Korean Government has agreed to eliminate the border closure provisions encompassed in the "special laws" and to dismantle the investment approval process and move to a more transparent notification system (see Section 5).

One method the Korean Government has used to limit imports is the imposition of high tariffs. At the conclusion of Korea's fifth Five Year Plan in 1986, the average tariff rate for all products was 19.9 percent. The Korean Government, however, has begun to implement a phased reduction of tariff rates that will reduce tariffs to an average of 7.9 percent (the average for the OECD countries) by 1993. In some areas of interest to the United States, particularly agricultural products, tariff rates will remain high, however, and the degree of increased market access remains to be seen.

In December 1988, the Korean Government announced a plan for the phased liberalization of the capital market between 1989 and 1992. The plan laid out steps for the gradual lifting of restrictions on inward and outward portfolio investment and the opening of the domestic securities market on a limited basis by 1992. Some modest progress was made in 1989, but it remains to be seen whether significant liberalization will occur in this timeframe. In the banking sector, the Government is in the process of finalizing a series of policy changes with respect to foreign bank operations. The changes would introduce greater transparency to the banking system, but also might impose additional restrictions in several parts of the regulatory regime affecting foreign banks, particularly with regard to branching.

During the past year, senior Korean Government officials have continued to emphasize that economic restructuring (including financial sector liberalization and the minimizing of government restrictions) is necessary to ensure the continued success of the country's economy. At present, it is not clear how and in what timeframe the Government will implement its commitment in principle to further "internationalization" of the Korean economy.

4. Debt Management Policies

In 1985, Korea was the fourth largest debtor among developing countries with external debt totalling nearly $47 billion, or 52 percent of GNP. Korea has used the substantial current account surpluses recorded since 1986 to reduce and even prepay its medium and long-term foreign debt. At the end of June 1989, Korea's outstanding foreign debt (gross) dropped to $30.5 billion (net foreign debt was $4.2 billion). Korea's debt service ratio in 1989 is estimated at 11 percent (7 percent if prepayments are excluded). Korean economists project that by early 1990 Korea will become a net creditor nation. The Government's draft seventh Five-Year Economic and Social Development Plan for 1992-1996 projects that Korea's net external credit will increase to $41 billion by the end of 1996, with foreign assets totalling $60 billion, external debt $19 billion.

5. Significant Barriers to U.S. Exports and Investment

With the signing of three agreements--on investment, agriculture, and localization--during the May 1989 discussions mandated by the "Super 301" provision of the 1988 U.S. Omnibus Trade and Competitiveness Act, the Korean Government has promised to eliminate over a three-year period a number of important structural barriers in Korea's trade and investment regime, a development that should result in significant benefits to U.S. and other foreign investors and exporters. Under the terms of the agreements, the Korean Government pledged to amend and/or to revise Korean laws and regulations governing investment approvals, border closures, standards, testing, and customs procedures. The agreements also provide for some further liberalization of agricultural imports.

With the exception of investments in the free export zones (FEZs), all foreign direct investment comes under the purview of the Foreign Capital Inducement Act administered by the Ministry of Finance. Case-by-case reviews by the Ministry, the Bank of Korea, other relevant ministries (if automatic approval is not granted), and in some cases by the Foreign Capital Project Review Committee have provided Korean officials considerable latitude for considering applications on the basis of non-promulgated or informal criteria. Although there have been no specific limitations on licensing agreements, approvals have been based on internal and unpublished policy guidelines of the Ministry. Technical and licensing agreements in the export sector and for highly sophisticated machine industries have had the highest priority. Policies and regulations designed to foster localization (reserving the local market for domestic producers) have been key factors in determining whether and how expeditiously a foreign investment or licensing application was approved.

Under the "Super 301" investment agreement, the Korean Government has pledged that by January 1, 1993 foreign investors will be allowed to proceed with investments in the manufacturing and services sectors (that are not on the negative list) within 60 days of notifying the Korean Government. The Korean Government still will have the option to disapprove a foreign investment proposal within the 60-day notification period, but the reason for the refusal will be limited to those listed in the "Super 301" agreement (e.g. protection of national security, public health, violation of antitrust and fair trade laws.)

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Effective July 1, 1989, the Korean Government eliminated formal and informal performance requirements as a term and/or condition for approving a foreign investment project in Korea. Some product areas where U.S. exporters are very competitive (e.g., medical equipment, pharmaceuticals) have been subject to so-called "special laws." Some provisions of these special laws have been used by concerned ministries or trade associations to limit the volume of competitive imports into the Korean market while other special law provisions have effectively imposed import bans on products for which the Korean Government intends to develop indigenous manufacturing capabilities. Under the "Super 301" localization agreement, the Korean Government has agreed to submit a proposal to the Korean National Assembly which would repeal the border closure provisions contained in the "special laws." The Korean Government has pledged that all border closure provisions will be terminated by July 1, 1990 and has promised not to invoke any new ones.

Regulations requiring the inspection and approval of industrial goods (both domestic and foreign manufacture) have been a significant barrier to imports. Domestic producers have had the authority to establish certification requirements including standards for competing imports. The system has lacked transparency and has been subject to manipulation by local anti-import interests. Under the "Super 301" localization agreement, the Korean Government has indicated that in implementing the industrial products quality control law government officials will exclude from prior quality inspection internationally recognized standard or certification marks and marks from well-known public organizations in foreign countries. The Korean Government also has agreed to simplify labeling requirements for food products (August 1, 1989), revise and implement new regulations for testing cosmetics (March 1, 1990), allow foreign cosmetic wholesalers to distribute previously registered cosmetics (July 1, 1990), and to reduce substantially the number of products subject to prior import approval under the electrical products safety control law (end of 1989).

A license is required for all imports entering Korea. However, most license applications receive routine automatic approval. Under the Foreign Trade Act, Korea (as of July 1, 1989) continues to restrict imports of 463 items, most of which are agricultural and/or related products. (The Korean Government has announced that at the end of the 1989-1991 liberalization schedule the number of items on the negative list, mostly agricultural products, will total 274.) The Government approves license applications for import products in restricted categories on a case-by-case basis after a screening by the concerned agencies and relevant private sector associations.

Although the Korean Government has lowered some tariffs on agricultural products, and has agreed to some further liberalization of imports in the "Super 301" negotiations, restrictive import licensing, high tariffs, non-transparent non-tariff barriers and quotas continue to impede U.S. agricultural exports to Korea, particularly high-value products. Domestic supply shortages have forced the Korean Government to resume beef imports, but they are subject to restrictive quotas and the Government has designated a quasi-governmental agency as the sole importer. Discussions on further liberalization following Korean acceptance of the GATT beef panel report are underway.

Korea's agreement to cease applying GATT-justified balance of payments import restrictions, or to otherwise bring them into conformity with the GATT, and to implement a phased elimination of these restrictions over an eight-year period, ending July 1, 1997, should lead to a gradual increase in U.S. exports of high-value agricultural products to Korea. But the continuation of unreasonable phytosanitary requirements and inconsistent application of the regulations, as demonstrated by the cherry fumigation issue and the alar grapefruit controversy, have called into question the Korean Government's resolve to implement effectively the liberalization of agricultural imports.

The services sector continues to be of great interest to U.S. companies. The Korean Government currently restricts foreign participation in a variety of service industries, including trucking, legal assistance, accounting, securities transactions and interpretation/translation/language instruction services. Bilateral negotiations, however, have resulted in increased market access for other service industries such as insurance, advertising, motion pictures and travel agencies. The U.S. Government continues to encourage the Korean Government to liberalize further the services sector, and will monitor closely to ensure that firms entering nominally liberalized sectors are treated in a non-discriminatory manner.

Bilateral civil aviation and maritime negotiations have yet to resolve differences involving computer reservations systems, air cargo warehousing space, port service charges, intermodal service, and related issues.

In addition to full implementation of the "Super 301" and other bilateral agreements, early progress is needed in the ongoing bilateral telecommunications negotiations mandated by the Omnibus Trade Act. If these negotiations do not produce a solution by February 1990, the U.S. trade representative will be required to determine at that time what additional action may be required.

Customs and other officials at ports of entry have considerable discretion in determining whether a product will be allowed entry. Implementation sometimes seems directly to contradict policy. While Korean customs regulations still lack transparency, the Customs Administration recently has made efforts to provide guidelines in English to U.S. exporters and companies importing products into Korea in support of their domestic operations. The Customs Administration also has established a "hot line" to address special problem cases, and has been instructing customs officers to do a better job of ensuring uniform procedures.

6. Export Subsidies Policies

Since the early 1980s, the Korean Government has eliminated a number of export subsidies, including preferential interest rates for short-term export loans and the special depreciation allowance for large exporting firms and overseas construction firms. Effective August 1, 1989, the Korean financial authorities introduced bankers' acceptances to the domestic money market as a means of providing exporting firms increased opportunities in obtaining non-subsidized export financing. The Korean Government still maintains some measures to support Korea's export industries, including customs duty rebates for raw material imports used in the production of exports; short-term export loans for small and medium firms; rebates on the value-added tax (VAT) and a special consumption tax for export products; corporate income tax benefits from costs related to the promotion of overseas markets; and special depreciation allowances for small and medium firms. Korea is a member of the GATT Code on Subsidies and Countervailing Duties.

7. Protection of U.S. Intellectual Property

South Korea is a party to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Universal Copyright Convention, and the Geneva Phonogram Convention and is a member of the World Intellectual Property Organization.

In 1989, the Korean Government took steps to improve the protection of U.S. intellectual property rights in Korea. In previous months, existing laws (including those passed in response to the 1986 U.S.-Korea Intellectual Property Rights Agreement) have helped curb the unauthorized use of copyrights, patents and trademarks. The Korean Government's enforcement of these laws, however, has been inadequate. In order to address the problem, the Korean Government created in December 1988 an interministerial task force chaired by the Ministry of Trade and Industry. The purpose of the task force was to develop methods for eliminating the production and sale (both domestic and export) of counterfeit goods; to formulate measures to protect newly-defined intellectual property such as satellite transmission; to launch a campaign to educate the Korean public on the importance of intellectual property rights protection; and to encourage development of domestic trademarks.

In May 1989, the U.S. Trade Representative placed Korea (together with seven other countries) on its "Priority Watch List" under the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act. In November 1989, South Korea was removed from the list after a determination that its commitment to enhance protection of intellectual property rights together with improvements in enforcement warranted

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such action. Korea, however, remains (along with 19 other countries) on the regular "Watch List." In July 1989, the Korean Industrial Property Office proposed a number of revisions to existing intellectual property laws that would further improve patent, trademark and copyright protection. The amendments have been approved by the Cabinet and currently are being reviewed by the Korean National Assembly. Some problem areas where additional improvements are needed are discussed below.

Patents: Patent experts indicate that, while Korea's patent laws are satisfactory, the actual extent of patent protection in Korea depends on judicial interpretation. Specifically, there is a lack of discovery procedures in Korea; "improvement patents," whether patentable or not; and the use of the "doctrine of equivalents" is limited. Existing patent laws on compulsory licensing pose problems for some U.S. firms. Korean law currently specifies that compulsory licensing will follow if the patent is not worked or if domestic or export demand is not met. The Korean Government has proposed changes in its Patent Law that would allow patenting of foodstuffs and the filing of patent applications held under serving orders abroad.

Trademarks: Trademark violations are widespread in Korea. Regular and vigorous crackdowns are necessary to stop the production and sale of counterfeit products. Of growing concern is the export of these goods from Korea to the United States and third countries. Although Korean law allows prosecutors and/or the police to investigate trademark infringement without the filing of a formal complaint, U.S. firms have complained that Korean prosecutors provide little or no information regarding the status or outcome of these investigations. The current procedures for publishing "proof of use" for trademark purposes do not consider advertising and use by a legitimate licensee as acceptable forms of proof. In addition, clear and expeditious procedures for correcting trademarks previously registered improperly are needed.

Copyrights: Korean Government administrative measures outlined in the 1986 U.S.-Korea intellectual property rights agreement were intended to provide retroactive protection for books copyrighted from 1977-87 and software copyrighted from 1982-85. To date, the administrative guidance provided by the Korean Government authorities has been ineffective. As regards textbooks, the Korean Government has had some success in curbing pirating activities through the use of tax laws and trademark infringements, but software piracy still is widespread. Korean law does not permit the prosecutor and/or the police to undertake an investigation related to an alleged copyright infringement unless a formal criminal complaint has been filed. U.S. firms have maintained that the delay resulting from this requirement enables the alleged violator to remove evidence from the premises before the authorities arrive.

New Technologies: Korean law currently does not protect semiconductor mask works. The 1986 U.S.-Korean intellectual property rights agreement required the Korean Government to study the feasibility of extending such protection. The Korean authorities have indicated the draft legislation will not be completed until June 1990 with review by the national assembly expected in late 1990 and implementation in late 1992. Protection of satellite broadcasts is the subject of a study that is expected to be completed by the end of 1989.

8. Worker Rights *

a. The Right of Association

The Constitution gives Korean workers the right to free association, with the exception of employees of government agencies, state-run enterprises, and defense industries. Only a single union is permitted at each place of work; there is no minimum for the number of workers required to form a union. In June 1989, the Korean Government reported that approximately 1.8 million Korean workers (22 percent of the civilian work force) were unionized.

b. The Right to Organize and Bargain Collectively

Korean labor law does not extend the right to bargain collectively to employees of government agencies, state-run enterprises, and defense industries. In August 1989, the Korean Government, in response to a suit, determined that Article 18 of the Free Export Zone Establishment Act required the Government to treat companies in Korea's two free export zones as "public interest" enterprises. This designation lengthens the time between the union's notification to the Government of its intention to strike and the start of the strike from 10 to 15 days and gives local labor councils the option to order mandatory arbitration. The Government plans to revise the Act so that workers in the two Zones are treated in the same manner as other private sector employees.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not practiced. The government authorities, however, have under investigation a number of cases in which private individuals sold women into prostitution and forced men to work involuntarily on fishing boats.

d. Minimum Age for the Employment of Children

The Korean Labor Standards Law prohibits the employment of persons under 13 without a special certificate from the Ministry of Labor. However, because Korea has compulsory education to age 13 the authorities issue very few certificates for full-time employment. Children employed under 18 must have written parental approval. Minors work only a limited number of overtime hours, and are prohibited from night work without special Ministry permission. Nevertheless, employers often treat employees under 18 as adults and do not always accord them the protection to which they are entitled.

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e. Acceptable Condition of Work

The Government reviews the minimum wage annually. The minimum wage was set in 1989 at the equivalent of $218 per month. The minimum wage law does not apply to firms employing fewer than ten workers. According to the Korean National Bureau of Statistics, the average monthly salary for an urban head of household in 1989 was $906. The Labor Standards and Industrial Safety and Health Law limits the maximum work week (including overtime) to 60 hours. The Government sets health and safety standards, but the Labor Ministry does not enforce them effectively.

f. Rights in Sectors with U.S. Investment

U.S. investment in Korea is concentrated in petroleum, chemicals and related products, transportation equipment, processed food, and to a lesser degree in electrical and electronic manufacturing. Workers in these sectors enjoy the same legal rights of association and collective bargaining as workers in other industries. A large proportion of production line workers in labor-intensive industries (including electronics assembly) are young women in their mid-teens. Their places of employment often are cramped and sometimes dangerous. Working conditions at U.S.-invested plants are for the most part better than in other plants. Since 1987, workers in both U.S.-invested and other plants have sought and obtained unprecedented increases in wages (averaging 18 percent annually in the manufacturing sector) and benefits.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		10
Total Manufacturing		497
Food & Kindred Products	58	
Chemicals & Allied Products	104	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	224	
Transportation Equipment	2	
Other Manufacturing	74	
Wholesale Trade		49
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		556

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Republic of Korea country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions Malaysian dollars (M$) unless otherwise noted)

	1987	1988	1989 (est)	
Income, Production and Employment				
GNP (current prices)	74,729	85,798	95,150	
(pct chg)	11.6	14.8	10.9	
GDP (1978 prices)	60,929	66,258	71,294	
(pct chg)	5.3	8.7	7.6	
by sectors (mils M$ - est)				
Agriculture	13,311	14,003	14,437	
Manufacturing	13,734	16,151	18,251	
Mining/petroleum	6,442	6,869	7,343	
Utilities	5,164	5,623	6,069	
Construction	2,077	2,133	2,314	
Whole and retail trade	6,423	6,988	7,547	
Financial services	5,424	5,906	6,467	
Government services	7,543	7,819	8,132	
Other services	1,400	1,454	1,518	
GDP per cap (1978 prices)	3,686	3,911	4,103	
Labor force (thousand)	6,409	6,622	6,834	
Unemployment rate	10.8	8.1	7.9	
Government finance				
Federal govt revenues	18,143	21,967	23,863	
Federal govt expend	23,379	25,857	29,107	
Federal deficit	6,153	3,890	5,244	
Percent of GNP	8.2	4.5	5.5	
Public sector deficit	3,779	3,380	5,712	
Percent of GNP	5.1	3.9	6.0	
Money and Prices				
Money supply (M1)	15,768	18,076	18,923	(Jun)
Money supply (M2)	56,459	60,360	60,949	(Jun)
Prime rate (pct)	7.5	7.0	7.0	
LIBOR (12 month)	4.77	4.5	5.6	(Oct)
Nat savings/GNP (pct)	33.6	33.1	29.8	
Investment/GNP (pct)	10.9	28.2	29.5	
Inflation (CPI)	1.1	2.5	4.0	
Balance of Payments and Trade				
Merchandise exports	44,733	54,596	65,777	
Exports to U.S.	7,485	8,786	11,708	
Merchandise imports	30,030	40,039	54,557	
Imports from U.S.	5,983	7,202	9,002	
Merchandise balance	14,703	14,557	11,220	
Services (net)	-8,597	-10,265	-11,087	
Current account	6,454	4,720	223	
M$/$ (avg)	2.49	2.71	2.71	(Jan-Aug)
Aid from the U.S.	1.1	1.0	n/a	
Aid from others (mils $)	285.3	235.0	n/a	

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	1987	1988	1989 (est)
Foreign debt	50,369	47,055	44,151
Public sector	44,400	41,850	40,210
Private sector	5,969	5,205	3,941
Debt service payments (a)	7,780	8,579	8,912
Debt service ratio (a)	14.8	13.5	11.8
Official net reserves	19,432	18,328	19,833

(a) excluding prepayments

1. General Policy Framework

Malaysia has a generally open, market-oriented economy. Since independence in 1957, the Malaysian economy has shown sustained growth and has diversified away from the twin pillars of the colonial economy: tin and rubber. Real GDP growth averaging 6-8 percent from 1964-84 has been accompanied by the development of new crops (palm oil and cocoa), the expansion of the petroleum sector (now producing 563,000 barrels per day of oil and 1.8 billion cubic feet of natural gas per day), and the creation of a large manufacturing sector (27 percent of GNP). The collapse of commodity prices in 1985-86 led to Malaysia's sharpest recession since independence with real GDP growth near zero and nominal GNP falling 11 percent in two years. Since then, the economy has rebounded, led by strong growth in exports of manufactured goods. Real GDP growth is expected to be around 7.6 percent in 1989.

The Government plays a large role in the Malaysia economy, both as a producer of goods and services and a regulator. The government or government-owned entities dominate a number of sectors, particularly plantations and banking. Through the National Equity Corporation (Permodalan Nasional Berhad or PNB), the Government has equity stakes (generally minority stake) in a wide range of Malaysian domestic companies. In all, government-controlled entities may account for one-third of the economy. Government controlled companies are rarely monopolies in Malaysia. Instead, they are one player (generally, but not always, the largest) in a competitive market. Since 1986, the Government has privatized a number of government entities, including telecommunications, ports, and a major highway. The National Electricity Board is slated for privatization in 1990.

Malaysia has encouraged foreign direct investment, particularly in export-oriented manufacturing. A substantial share of the manufacturing sector is controlled by multinational corporations. Electronic components (where Malaysia is the third largest product of integrated circuits after the U.S. and Japan) and consumer electronics and electrical goods are dominated by American and Japanese firms. Foreign investors also play an important role in petroleum, textiles, vehicle assembly, steel, cement, rubber products, and electric machinery. Widening fiscal and current account deficits in the early 1980s led the Government to impose stringent controls over government spending in 1984. This effort has held total government spending below the 1985 peak and reduced the federal government's deficit from 11.3 percent of GNP in 1985 to 6.1 percent in 1989. The recession and strong foreign demand reversed a serious current account deficit by 1987 and have allowed Malaysia to begin reducing its foreign debt.

The New Economic Policy (NEP) was established in 1971 with two objectives: to (1) eradicate poverty in Malaysia and (2) restructure the economy so as to end the identification of economic function with race. In particular, the NEP was designed to enhance the economic standing of the ethnic Malays and other indigenous peoples (collectively known as "bumiputras"). The NEP includes broad affirmative action programs in employment, education and government contracting.

The NEP also seeks to alter the pattern of ownership of corporate equity in Malaysia to ensure that at least 3 percent of corporate equity is held by bumiputras, 40 percent by other Malaysians and no more than 30 percent by non-Malaysians. To this end, the Government established various trusts which were provided government funds to purchase foreign-owned shareholdings on behalf of the bumiputra population. Foreign firms have been urged, and in some cases required, to restructure their equity in line with the NEP guidelines. In 1985, the Government estimated that bumiputras directly and indirectly owned 18 percent of corporate equity and foreigners 26 percent. From 1986 on, successive relaxations in NEP guidelines have reduced rigidities in the economy. It is generally expected that the NEP in some form will continue beyond its scheduled expiration in 1990.

2. Exchange Rate Policy

Malaysia has a substantially open foreign exchange regime. The Malaysian currency, the ringgit (M$), floats against the U.S. dollar and other currencies. Bank Negara (the Central Bank) does not specifically peg the ringgit, but does intervene in the foreign exchange market to smooth out fluctuations and discourage speculation. It generally tracks the currency's value against a trade-weighted basket of currencies in which the U.S. dollar is believed to have a large weighting. Over the past two years, the ringgit has traded within a fairly narrow band against the U.S. dollar, ranging from M$2.66 to M$2.75 per U.S. dollar.

Payments, including repatriation of capital and remittance of profits, are freely permitted. Payments to countries outside Malaysia may be made in any foreign currency except the currencies of Israel and South Africa. No permission is required for payments in foreign currency up to M$10,000 (U.S.$3,700). Individual foreign exchange transactions above M$10,000 require an exchange control license. For transactions up to M$10 million (U.S.$3.7

million), the license is obtained upon completion of a simple reporting form which is approved by any commercial bank without reference to the Controller of Foreign Exchange (part of Bank Negara), provided that in the case of payments of interest or repayments of principal on borrowings from non-residents, the borrowings have been obtained with the approval of the Controller, and the payments are consistent with the approved terms and conditions of the borrowing. An individual transaction in excess of M$10 million requires the approval of the Controller.

3. Structural Policies

Pricing Policies: Nearly all prices in Malaysia's economy are market-determined with the Government or government entities controlling the prices of relatively few goods, notably fuel, public utilities, rice, motor vehicles and tobacco. Tariffs and non-tariff barriers generally do not distort prices or impede trade. Tariffs overall average 15 percent and import licenses are required only for a small range of sensitive items. The Government sets above-world-market farm gate price for rice and tobacco as a means of encouraging domestic production and boosting depressed rural incomes.

Despite this price incentive, Malaysia must import large quantities of rice. The Government is a monopoly importer of rice and uses the profits from the resale of cheaper imports to offset the losses from the sale of domestic rice at retail prices which are fixed below domestic farm prices. In the case of tobacco, the Government also presses cigarette manufacturers to use a higher proportion of locally grown tobacco. Manufacturers maintain that consumer taste dictates a maximum level of local leaf content; this limits total demand for domestic tobacco. Since price-supported domestic tobacco is not competitive in export markets, the Government pressures tobacco product manufacturers to purchase and store excess supplies of tobacco in years when local output exceeds established production quotas.

Tax Policies: The private sector has criticized the Government for maintaining relatively high direct tax rates. In the 1989 budget, corporate income taxes were reduced from 40 percent to 35 percent and the Government stated that the 5 percent development tax (part of income tax would be phased out within 5 years starting with a 1 percent reduction in 1990. In the 1990 budget, 142 items including foodstuffs, building materials, agricultural input, pharmaceutical products and household goods obtained reduction in import duty, sales tax, surtax and excise duties. The United States has a trade interest in a number of the affected products, especially chocolates, fruit juices and other food products (see section on significant barriers to U.S. exports).

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Investment Policies: The Government encourages foreign and local private investment. Liberalized guidelines on foreign equity participation apply to new investments for which application is made between October 1, 1986, and December 31, 1990. A foreign investor can hold 100 percent of the equity of a Malaysian subsidiary by meeting either of two conditions: export 50 percent or more of the output (including sales to free trade zones or licensed manufacturing warehouses), or employ 350 or more full-time Malaysian workers. In addition, the company's products must not compete with products being produced locally for the domestic market. These guidelines do not apply to existing investments, but do apply to the amount of equity in any expansion.

The Malaysian Government has pledged that new investors during this period will never be required to restructure their equity at any time as long as they continue to meet the conditions of the original license. For companies exporting 20-49 percent of their production, foreign equity is limited to between 30 percent and 51 percent. For companies exporting less than 20 percent of their production, foreign equity is limited to 30 percent in most cases but may go as high as 51 percent for high technology or priority products for the domestic market. Investment in the financial services sector may be up to 49 percent foreign equity in existing enterprises. Theoretically, foreign investment in a new enterprise is limited to 49 percent, but no new banking or insurance licenses are being issued so no new enterprises can be established.

4. Debt Management Policies

Malaysia's medium and long-term foreign debt stood at M$47.1 billion (U.S.$17.4 billion) at the end of 1988. By the end of 1989, the Malaysian Government expects the nation's foreign debt to decline to M$44.2 billion (U.S.$16.4 billion at October 1988 exchange rates) as the Government continues to use Malaysia's substantial current account surplus to retire foreign debt. Malaysia's debt service ratio declined from a peak of 17.6 percent in 1986 to 13.5 percent in 1988, and is expected to be reduced to 11.8 percent in 1989 because of new initiatives in debt management. These include interest and currency swaps, diversification of borrowing sources, refinancing and prepayments of more expensive loans. Malaysia remains an attractive borrower on international markets, able to command excellent terms. Debt denominated in U.S. dollars accounted for approximately 47 percent of Malaysia's foreign debt at the end of 1988, up from 40 percent in 1987 but down from 66 percent in 1983-84 before the sharp appreciation of the yen and several European currencies. Yen-denominated debt accounted for about 31 percent of all foreign debt, down from 36 percent in 1987. The remaining 22 percent is spread among a number of currencies.

Most of Malaysia's foreign debt was built up in the early 1980s. The 1980-82 slump in the industrialized countries depressed the prices of non-oil commodities (on which Malaysia depended for its export earnings) and slowed inward foreign investment. At the same time, the Malaysian Government embarked on a policy of heavy investment in industry to reduce the economy's dependence on commodities and spent heavily to buy out large foreign stakes in key economic sectors such as plantations and banking. From 1981 through 1984, Malaysia's net foreign borrowing was some M$29 billion (approximately U.S.$12 billion).

In 1985, Malaysia reversed course and the Government sought to reduce its budget deficit and its foreign borrowing. In 1985 and 1986, net foreign borrowing was only M$3.3 billion (U.S.$1.3 billion). In 1987 and 1988, net foreign borrowing was approximately minus M$6.5 billion (U.S.$2.6 billion). That is, Malaysia has only repaid U.S.$2.6 billion in foreign debt in two years. In 1989 Malaysia's national foreign debt is expected to decline by M$2.9 billion to M$44.2 billion. The appreciation of several currencies in which part of Malaysia's debt was denominated, particularly the yen and the mark, meant that the value of Malaysia's debt in Malaysian ringgit (and U.S. dollars) continued to rise. In 1985 through 1987, the appreciation of the yen and European currencies is estimated to have added M$14 billion (U.S$5.6 billion) to the ringgit value of Malaysia's foreign debt. The appreciation of the dollar (8.8 percent) has added M$1 billion to the ringgit value of Malaysia's foreign debt while the appreciation of yen added M$0.5 billion in 1988. By October 1989 the Malaysian ringgit had appreciated 8 prcent against the yen and 6 percent against the deutschemark but only marginally against the U.S. dollar.

5. Significant Barriers to U.S. Exports and Investment

High Import Tariffs on Tobacco: In order to encourage greater use of local tobacco in cigarettes and maintain high domestic leaf prices, the Government levies heavy import tariffs. The present import duties for unmanufactured tobacco and cigarettes are M$50 and M$85 per kilogram, respectively. It is important to note that while this policy does limit total leaf imports, the high tariffs appear to discriminate more against lower quality leaf from suppliers other than the United States. Since the duty on imported leaf tobacco does not vary by quality, it is more economical to import high-grade U.S. leaf to blend with lower quality domestic tobacco.

Heavy Import Duties on High-value Food Products: Duties for processed and high value products such as canned or fresh fruits and other processed foods are in the 30-50 percent range. In contrast, virtually all Malaysian agricultural exports to the U.S. enter duty free.

Discriminatory Sales Tax: In order to broaden the tax base, the Ministry of Finance announced in the 1988 budget a nearly complete withdrawal of the sales tax exemption formerly enjoyed by virtually all foodstuffs. With the 1989 budget, the Ministry further extended the tax to include several additional high-value food products. Malaysia's sales tax is a single stage tax levied on locally produced goods ex-factory and on imported goods at the point of entry, rather than at the retail level as in the United States. The five percent sales tax adversely affects U.S. exports in three ways: coverage seems to be biased against imported products; in many cases, the sales tax is not being collected from many local producers of identical or similar goods because most farmers and many small-scale enterprises are outside the tax system (the tax on imported items is collected at the same time as customs duties); and the five percent tax on entered value means that the effective rate for imported products is actually six to seven percent.

Ban on Imports of Chicken Parts: In 1983, the Government effectively closed peninsular Malaysia to imports of chicken parts by ceasing to issue veterinary import permits. According to the Veterinary Department, the ban was implemented because the EEC was dumping chicken parts into the Malaysian market. East Malaysia maintains a separate import regime for poultry products and still allows U.S. chicken products to be imported. It is estimated that peninsular Malaysian imports of chicken parts, mainly chicken wings, could reach as high as U.S.$20 million if current import restrictions were removed. In view of the fact that Malaysia now exports significant quantities of poultry meat to Singapore and Japan, the continued protection of the domestic industry through use of the ban appears to be unwarranted.

Discriminatory Rice Import Policy: Because of the high cost of rice production in Malaysia, the national rice authority (Lembaga Padi Negara or LPN imports substantial quantities of rice; the LPN is also the sole legal importer of rice. Purchases generally are made on a government-to-government basis, with preference accorded to rice supplied by other Asian countries, notably Thailand. This practice places private U.S. suppliers at a considerable disadvantage.

Import Licenses: Malaysia has almost no import licensing. In those few sectors subject to licenses, (i.e., requiring approved permits), U.S. exports have not been generally been significantly impaired. There are some technical licenses; e.g., for electrical products and telephone equipment, but these are administered fairly and do not constitute non-tariff barriers.

Service Barriers: Malaysia protects many service sectors. Foreign lawyers, architects, etc. are generally not allowed to practice in Malaysia. Television advertisements must be produced in Malaysia with Malaysian performers unless an exception is obtained. There are wholly owned U.S. travel agents and air courier services. There are also wholly owned U.S. motion picture and record distribution companies.

Financial Services: Banking, insurance and stockbroking are all subject to government regulation which limits foreign participation. Foreign banks are not permitted to open new branches or establish off-site automated teller machines (ATMs). Foreign controlled companies are required to obtain

60 percent of their local credit from local banks. Despite these restrictions, foreign banks account for more than 25 percent of commercial bank assets. No new insurance licenses are being granted. Foreign shareholdings in insurance companies are limited to 30 percent without government approval. However, the two largest insurance companies are 100 percent foreign-owned (one American). In addition, Aetna recently purchased 49 percent of a local insurance company and John Hancock recently bought 30 percent of British-American Life and General Insurance. The Government has recently announced that foreigners may hold up to 49 percent of the equity of a stockbroker and said it would consider requests for majority foreign ownership.

Standards: Malaysia has extensive standards and labelling requirements, but they appear to be implemented in a non-discriminatory fashion, and have not affected U.S. exporters. Food product labels must provide ingredients, expiration dates and, if imported, the name of the importer. Electrical equipment must be approved by the Ministry of Trade and Industry, telecommunication equipment must be "type approved" by the Department of Telecommunications. Pharmaceuticals must be registered with the Ministry of Health. In addition, the Standards and Industrial Research Institute of Malaysia (SIRIM) provides quality and other standards approvals.

Government Procurement: Most government tenders require that foreign bidders offer countertrade as an alternative method of compensation. There are 10-15 percent price incentives for local procurement. Government employees are normally required to fly on Malaysian Airlines, the country's flag carrier. Many smaller civil construction projects (M$50 million or less) are restricted to local firms.

Export Subsidies: Export subsidies are relatively insignificant in Malaysia. However, there does exist an export credit refinancing (ECR) scheme operated by the Central Bank. Under the ECR, commercial banks and other lenders finance exports at an interest rate of 4 percent. The lender then re-discounts the loan to Bank Negara at 3 percent interest. The U.S. Department of Commerce, in a countervailing duty case, valued the subsidy element in the ECR program at 0.49 percent of the value of the goods exported. Malaysia also provides tax incentives to exporters, including the following:

- abatement of adjusted income for exports equal to 50 percent of the proportion of sales represented by exports (e.g. if 60 percent of sales are exported, then adjusted income would be reduced by 30 percent);

- export allowance of 5 percent of the FOB value of export sales to trading companies exporting products manufactured in Malaysia;

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- double deduction for premiums for export credit insurance paid to a company approved by the Ministry of Finance;

- double deduction for promotion of exports, including expenses of overseas advertising, export market research, preparation of tenders for sales abroad, supply of technical information abroad, supply of free samples abroad, participation in overseas trade shows approved by the Ministry of Trade and Industry, public relations services abroad, overseas travel expenses (up to air fare and M$200 per diem), and maintaining overseas sales offices.

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7. Protection of Intellectual Property

Malaysia is a member of the World Intellectual Property Organization, but is not a member of the Berne Copyright, Paris Industrial Property, or Universal Copyright Conventions. Malaysian government officials have indicated recently that Malaysia intends to join the Berne Convention.

Legislation enacted since the mid-1970s- The Trade Description Act of 1976, the Patent Act of 1983, and the Copyright Act of 1987--has greatly strengthened protection for intellectual property in Malaysia. Nevertheless, Malaysia was cited on the U.S. Trade Representative's 1989 "Watch List" of countries judged to have inadequate intellectual property, protection, under the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act.

Patents registered in Malaysia generally have a duration of 15 years from filing but may have longer duration under certain circumstances. A person who has neither his domicile nor residence in Malaysia may not proceed before the patent registration office or institute a suit except through a local patent agent. With regard to trademarks, where any person has registered or applied for protection of any trademark in any foreign state designated by the Malaysian government, such person shall be entitled to registration of this trademark in Malaysia provided that application for registration is made within six months from the date of registration in the foreign state concerned.

The Copyright Act of 1987 went into effect on December 1, 1987. In addition to improving the protection for video tapes and audio material, the new Copyright Act for the first time explicitly protects computer software. The Act extends copyright protection only to works by Malaysian citizens and residents and to works first published in Malaysia or published in Malaysia within 30 days of the date that the work was first published overseas. Malaysia does not register copyrights. Copyright protection is conferred automatically to the author of the work or the individual/company that first reproduces the work in Malaysia.

The United States and Malaysia are working on a bilateral copyright agreement. U.S. works will not be eligible for copyright protection until such a bilateral agreement is in force, or until Malaysia adheres to a multilateral convention and puts in place appropriate implementing measures. Trademark infringement is not a problem in Malaysia for U.S. companies. Patent protection is also good. There have been few problems involving pharmaceutical patents since a 1986 ruling from the Malaysian Attorney General.

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8. Worker Rights *

a. The Right of Association

Unions may organize workplaces, bargain collectively with an employer, form federations and join international organizations. The Trade Unions Act's definition of a trade union restricts it to representing workers in a "particular trade, occupation, or industry or within any similar trades, occupations, or industries." The Committee on Freedom of Association of the ILO concluded that the free choice of unions by workers should not in any way be limited by administrative authorities' interpretations of union rules insofar as these determine the scope of their membership.

The Director General of Trade Unions has considerable latitude in deciding whether or not to register a trade union in Malaysia. He may, under certain circumstances, withdraw the registration of a trade union. A trade union for which registration has been refused, withdrawn or cancelled is considered an unlawful association.

While strikes are legal and do occasionally occur, critics claim that this right in practice is severely restricted. Actions by the Government have restricted the formation of unions in the electronics sector to in-house unions. The legal basis for this restriction remains unclear.

b. The Right to Organize and Bargain Collectively

Collective bargaining is the norm in industries where workers are organized. Malaysia's system of conciliation and arbitration seeks to promote negotiation and settlement of issues without industrial action. Malaysian law, especially the Industrial Relations Act, effectively restricts collective bargaining rights through compulsory arbitration. Enterprises granted "pioneer" status are protected from terms of employment exceeding those specified in the Employment Act of 1955 during the period of their pioneer status (normally 5 years). The restriction does not apply to wages or benefits not covered by the Employment Act.

c. Prohibition of Forced or Compulsory Labor

Malaysia is a party to ILO Convention 105 prohibiting forced or compulsory labor and has effective legal sanctions against such abuses.

d. Minimum Age for Employment of Children

The Children and Young Persons (Employment) Act of 1966, prohibits children under 14 from work except for light work in a family enterprise, in public entertainment, in a school or training institution, or as an approved apprentice. Children may not work more than six hours per day, more than six days per week, or at night. The law is enforced effectively.

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e. Acceptable Conditions of Work

Malaysian wages are relatively high for its level of industrialization and higher than in all neighboring countries except Singapore. The Employment Act of 1955 sets working conditions; minimum standards of occupational health and safety are set by law and enforced by the Ministry of Labor. Other laws provide for a fully funded retirement program and disability and workman's compensation benefits. There is no national minimum wage legislation, but certain classes of workers are covered by minimum wage laws. Working conditions for contract workers in the plantation sector often are significantly below those of direct hire workers, many of whom belong to the National Union of Plantation Workers. Additionally, many immigrant workers, particularly illegal ones, may not have access to Malaysia's system of labor adjudication.

f. The largest U.S. investment is in the petroleum sector where two EXXON subsidiaries operate. ESSO Production Malaysia Incorporated (EPMI), which is 100 percent EXXON owned, handles offshore oil and gas production. ESSO Malaysia, 65 percent owned by EXXON and 35 percent by Malaysian individuals and institutions, refines and markets oil products. Employees at both companies are represented by the National Union of Petroleum and Chemical Industry Workers (NUPCIW), which has negotiated collective agreements with management. Recently, some EPMI employees broke away from the NUPCIW and formed a separate in-house union. Pay and benfits at both companies are well above the Malaysian norm.

In the electrical machinery and electronic sector 12 U.S. electronic components manufacturers operate 16 plants, employing nearly 40,000 Malaysians. Electronic components are Malaysia's largest single manufactured export. Wages and benefits are among the best in Malaysian manufacturing.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		735
Total Manufacturing		521
Food & Kindred Products	5	
Chemicals & Allied Products	20	
Metals, Primary & Fabricated	-1	
Machinery, except Electrical	16	
Electric & Electronic Equipment	429	
Transportation Equipment	0	
Other Manufacturing	52	
Wholesale Trade		63
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,319

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Malaysia country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions of NZ$ dollars unless otherwise noted)

	1/ 1987	1988	1989	
Income, Production, and Employment				
Real GDP (constant 1983 prices)	34735	34660	34354	
Real GDP growth rate (pct)	1.3	-0.2	-0.9	
Agriculture	1.5	6.2	-1.0	
Fishing/forestry/mining	2.5	-6.5	16.2	
Manufacturing	2.3	-4.0	-3.3	
Electricity/gas/water	1.7	0.0	1.9	
Transport/commun/business/pers svcs	5.0	5.0	2.5	
Trade/restaurants/hotels	-1.2	-4.3	-3.3	
Construction	-0.2	11.8	-11.5	
Owner-occupied dwellings	2.3	1.8	1.8	
General government services	0.5	-0.7	-2.2	
Real per capita dispos income (NZ$	7641	7534	7719	2/
Size of labor force (1,000s)	1625.0	1609.2	1581.7	
Unemployment rate (pct)	4.1	5.0	7.4	
Money and Prices				
Money supply (M1)	4958	7302	8188	
Commercial int rates (pct per yr)				
Money market call	27.20	15.50	12.80	
90-day commercial bill	26.06	15.99	13.40	
Five-year government stock	18.22	14.43	13.19	
Base lending rates	21.10	18.40	15.80	
Savings rate	1.7	1.9	4.6	
Investment rate (fixed capital formation as a pct of GDP)	22.3	22.1	19.8	2/
Consumer price index (Dec 1988=1000)	967	972	1011	
Wholesale price index (producer price 1982 = 1000)	1400	1480	1573	
Exchange rate (ann avg) ($1.00/NZ$)	1.87	1.61	1.56	
Balance of Payments and Trade 3/				
Total exports FOB	12107.2	12451.5	14905.9	
Exports to U.S.	1975.9	1832.5	2008.1	
Total imports CIF	11800.2	11606.5	12492.9	
Imports from U.S.	1739.1	1697.5	1906.0	
Aid	0	0	0	
External public debt 1/	21822	19269	16777	
Annual debt service payments (int on external public debt)	1292.1	1477.8	1372.0	
Gold and forex reserves 1/	7543.6	5569.0	4033.3	
Current account balance	-2179	-2340	-256	

1/ fiscal year ending March 31
2/ estimate
3/ year to June 30

NEW ZEALAND

1. General Policy Framework

With a population of about 3.3 million and an area comparable in size to Colorado, New Zealand has a small economy which strives to compete in the international arena. New Zealand's land and climate are ideally suited for pastoral agriculture. Dairying, sheep and cattle raising are the primary agricultural activities, and the country's major industries concentrate on processing meat, hides, woolen goods, dairy products, fish, horticultural and forest-based products. Other industries include aluminium smelting, oil refining, carpet manufacture and numerous small-scale manufacturing units. The country is endowed with natural gas, coal, hydro and geothermal energy resources. Tourism is an important foreign exchange earner, and meat, wool and dairy products account for over half of New Zealand's exports. Other major exports include forest products, fruits and vegetables, fish and manufactured goods. Major imports include machinery, electrical equipment, transport equipment, fuels, chemicals and textiles.

New Zealand, particularly in the decade of the 1970s, lived beyond its means. The economy was characterized by large fiscal deficits, weak and unfocused monetary policy, a distortionary tax structure, high levels of industry protection, tight controls over a wide range of activities, poor public sector management, and large and inefficient public sector trading activities.

Beginning in July 1984 the New Zealand Government initiated a policy of comprehensive economic reform aimed at reversing the country's poor economic performance by moving toward a more market-oriented system. The focus of monetary policy was changed, and is now targeted at achieving price stability. The authorities have not adopted any formal money aggregate targets, but the government's commitment to fund fully all public sector deficits and maturing government securities by sales of medium-term debt has ensured stringent control over the monetary base. The Reserve Bank aims to maintain a constant level of primary liquidity which is defined as deposits held at the Reserve Bank by commercial banks, together with private sector holding of government securities with less than a month to maturity. Open market operations are then conducted to achieve the targeted level. Fiscal policy is now aimed at eliminating annual deficits between government revenue and expenditure.

The Government's financial deficit has been cut from around 7 percent of GDP in 1984 to 1.5 percent in the March 1989 fiscal year, and the Government's stated objective of a financial surplus by the 1990/91 fiscal year appears within reach. Such a surplus will help reduce the very high levels of public debt.

Other reforms include financial sector deregulation and the free float of the New Zealand dollar. Export incentives, import licensing, farm subsidies and a range of other industry supports have been eliminated, as well as tariff barriers lowered. However, economic reform has not been without pain. At the expense of rising unemployment, inflation has been reduced to a rate of 4 percent for the year ended March 4, 1989, compared to 9 percent the previous year. Prices, however, have begun to rise with the annual rate of inflation growing to 7.2 percent in September 1989 pushed by a 25 percent increase in the goods and services tax (GST), higher costs for imported goods and some return of domestic demand. The Government has targeted inflation to fall to 0 2 percent by 1992, but the tight monetary policy required to achieve this target could endanger prospects for sustained economic growth.

Unemployment has become the nation's major political/economic issue. The household labor force survey for the March 1989 quarter showed a decline of 63,000 in total employment, with the unemployment rate increasing to 7.4 percent. The June survey showed a further decline in employment, but lower worker participation allowed a marginal drop in the unemployment rate to 7.3 percent. Given the natural increase in the work force, declining net migration as employment prospects in Australia drop, and little change in the growth in labor demand over the coming year, unemployment will continue to be the country's most serious economic problem through 1990 and 1991. The unemployment rate should rise to about 7.7 percent in March 1990 and then taper off very slowly.

The New Zealand economy continued to contract in the 1988/89 fiscal year which ended March 31, 1989. Real gross domestic product fell nearly one percent as output in the major sectors such as agriculture, manufacturing and construction all declined. Consumption and investment also fell in real terms. The consumption decline occurred despite a boost to real disposable income resulting largely from lower inflation.

The external sector of the economy continued to perform well. Demand for basic exports, particularly meat and dairy products, and depressed demand for imports resulted in a record trade surplus which was nearly large enough to eliminate the chronic current account deficit. Increased domestic demand and a weakening of international commodity prices are expected to trim the trade surplus in 1990.

The economy many have bottomed out in late 1988 or early 1989, and a mild recovery is now possible. Any recovery would be based partly on improved rural incomes, particularly in the dairy and beef sectors, which are benefiting from high export prices. The painful restructuring process of the past six years is beginning to show some results, and nearly all industry sectors are more competitive and better able to take advantage of demand conditions. Political uncertainty, which nipped an earlier recovery in the bud, appears to have been overcome for the time being. As a result, business confidence has increased and investment in plant, machinery and transport equipment should expand. The anticipated recovery, however, is not expected to make any major inroads into the country's serious unemployment situation in 1990 as job creation will lag behind other economic indicators. U.S. sales to New Zealand should benefit from the economic upturn.

2. Exchange Rate Policies

The New Zealand dollar has floated freely since March 1985. between that time and June 1988 the New Zealand currency appreciated about 40 percent against the U.S. dollar. Although it dropped some 15 percent against the U.S. dollar between June 1988 and June 1989, the continued high value of New Zealand currency vis-a-vis the U.S. dollar makes U.S. goods and services increasingly competitive.

3. Structural Policies

Prices in New Zealand are subject to the market and to tax policies. As of October 1, 1988 personal income taxes were reduced from a graduated income tax scale ranging from 15 percent to 48 percent to two tiers of 24 and 33 percent. In practice there is a de facto third tier as a rebate scheme for those earning less than NZ$9,500 provides the lowest income group with an effective tax rate of 15 percent. The company tax for New Zealand resident firms which was reduced from 48 percent to 28 percent on April 1, 1988 was increased to 33 percent on April 1, 1989.

The rate for branches of foreign firms rose on the same date from 33 percent to 36 percent. While the lower rates were partly offset by elimination of certain deductions and loopholes, the government opted to rely on indirect taxation in the form of a value added tax known as the Goods and Services Tax (GST) for much of its revenue. The GST is exacted at each step of the production chain and is imposed at entry on all goods imported into New Zealand. The tax paid may be claimed against the tax charged at each stage until the last. The tax accordingly falls primarily on the end consumer. The GST went into effect on October 1, 1986 with a rate of 10 percent. The Government increased the rate to 12.5 percent on July 1, 1989.

4. Debt Management Policies

New Zealand's total gross foreign debt stood at NZ$ 45.7 billion as of December 31, 1988. This amounts to 71.4 percent of GDP, and net debt comes to 65 percent of GDP, high by any standard. Despite the high debt ratio, New Zealand has maintained a favorable international credit rating as credit agencies are satisfied the country can continue to meet interest payments. Over the last two years long-term overseas debt has shown a declining trend both in nominal terms and as a percent of GDP. Long-term foreign debt was 46 percent of GDP in March 1989, compared with nearly 70 percent in March 1987. Despite this declining trend, the country's external debt remains high and the Government's program to reduce the lowered. However, economic reform has not been without pain. At the expense of rising unemployment, inflation has been reduced to a rate of 4 percent for the year ended March 4, 1989, compared to 9 percent the previous year. Prices, however, have begun to rise with the annual rate of inflation growing to 7.2 percent in September 1989 pushed by a 25 percent increase in the goods and services tax (GST), higher costs for imported goods and some return of domestic demand. The Government has targeted inflation to fall to 0 2 percent by 1992, but the tight monetary policy required to achieve this target could endanger prospects for sustained economic growth.

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5. Significant Barriers to U.S. Exports and Investment

New Zealand's average tariff levels are among the highest of the OECD member countries. However, New Zealand has unilaterally instituted a tariff liberalization program since December 1985, although most of these tariffs remain unbound in the GATT.

At that time, New Zealand announced tariffs on goods not produced in New Zealand would be cut to zero unless trade policy considerations dictated otherwise. New Zealand also announced its tariff concessions policy would be reformed to facilitate duty-free access to imports which did not compete directly with New Zealand products.

On July 1, 1986 New Zealand cut its tariff rates at levels exceeding 45 percent by five percentage points. A reduction of approximately 5 percent in tariff rates of more than 25 percent but not more than 45 percent was implemented at the same time. A further 10 percent reduction in all tariff rates above 25 percent was implemented July 1, 1987. On July 1, 1988 New Zealand instituted a four-year program to cut most industrial tariff levels in half by 1992. The program calls for five stages of across-the-board reductions, the first implemented July 1, 1988. Tariff levels will be reduced according to a formula which will make proportionally larger cuts in higher tariffs than lower ones. The end result will be a substantial reduction in New Zealand's high tariff rates and a greater harmonization of tariff levels.

Despite these sweeping reforms, relatively high tariff levels will continue to apply to many goods competing with domestically produced items. No further tariff concessions are being approved pending completion of a review of this policy. Items of particular U.S. export interest which continue to be subject to high tariffs include printed material for commercial use including financial and legal printing, decals, postcards, calendars and pictorial matter (25.5 to 38.5 percent tariffs), plywood (30 percent) and aluminium products (30 to 35 percent). Reductions in these tariff levels in accordance with the aforementioned plan should result in expanded commercial opportunities for U.S. exporters.

Over the last several years New Zealand has made substantial progress in dismantling its highly restrictive import licensing regime. As of July 1, 1988 only imports of goods covered by certain New Zealand industry assistance plans require licenses. Further significant reductions in import licensing controls occurred on January 1, 1989. Licensing requirements now apply to less than 5 percent of total imports. With a few exceptions, remaining import licensing requirements will be eliminated by 1992. Goods covered by industry development plans will be removed from import licensing control at varying dates according to each plan's phase-out program. Most plans have a set license-end date. In most cases removal from licensing will occur in the next few years with the final goods scheduled for removal on July 1, 1993. Adult footwear is not yet subject to a set license-end date. The phase out of New Zealand's restrictive licensing regime has and will continue to benefit U.S. companies interested in exporting to New Zealand.

Import licenses for apples, pears, and oranges from all origins except Australia and the Pacific Islands are awarded to only one importer each. This partially shields domestic producers from competition and constrains import growth. U.S. exporters claim this restriction results in lost sales. The licensing requirement for oranges will be eliminated in 1990. No plans exist at the present time for eliminating the licensing requirement for apples and pears.

New Zealand recently liberalized its foreign investment regulations by increasing the threshold from NZ$ 2 million to NZ$ 10 million before approval is required by the Overseas Investment Commission (OIC). Investment proposals involving 25 percent or more foreign ownership of a firm also require OIC approval. The Government permits up to 100 percent foreign ownership and full repatriation of earnings. There are special restrictions on foreign ownership of broadcasting, fishing, minerals, petroleum and natural gas resources, and rural land.

6. Export Subsidies Policies

Under an export market development taxation incentive (EMDTI), New Zealand subsidizes domestic firms' expenditures directly related to promoting New Zealand goods and services abroad. Under this program, New Zealand exporters receive a tax rebate or tax refund of 42 cents on each dollar of qualifying expenditure. This rate has been phased down from a high of 69 cents per dollar in 1987 and will fall to 40 cents per dollar in 1989-90. Nevertheless, in its present form the EMDTI program falls within the scope of export subsidy programs proscribed under the GATT Subsidies Code. New Zealand's continued maintenance of the EMDTI program is inconsistent with its obligations under Article 9 of the Code.

When New Zealand acceded to the GATT Subsidies Code in September 1981, it maintained seven code-inconsistent export subsidy programs including the EMDTI. At that time New Zealand undertook to eliminate these programs by March 31, 1985. On the basis of this commitment, the United States agreed to extend provisionally to New Zealand the injury test for U.S. countervailing duty investigations.

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New Zealand eliminated five of the seven programs on schedule. However, in 1985 legislation was enacted extending the EMDTI and one other program through March 1987. Accordingly, in keeping with the 1981 agreement, the United States revoked application of the Subsidies Code. The United States has since denied New Zealand imports the injury test for countervailing duty proceedings. In 1987 New Zealand subsequently extended the EMDTI a second time while allowing the other program to lapse. The EMDTI is now scheduled to expire March 31, 1990.

7. Protection of U.S. Intellectual Property

New Zealand is a member of the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, and the Berne Copyright and Universal Copyright Conventions.

The Government of New Zealand strongly endorses the protection of intellectual property and enforces effectively those laws on its books which offer such protection. This is done to protect New Zealand innovators both at home and abroad and to encourage technology transfer. The Government recognizes that New Zealand is heavily dependent on imported technology and that the country derives considerable benefit in providing intellectual property protection. New Zealand has generally supported measures to enhance intellectual property protection at multilateral organization meetings.

There have been few problems in New Zealand with infringement, counterfeiting or piracy of U.S. intellectual property. However, New Zealand's copyright laws are outmoded when it comes to dealing with new technology. The Motion Picture Export Association of America is particularly concerned with a clause in the present Copyright Act which permits hotels to show motion picture videos on internal systems so long as there is no extra charge for this service. The Government has been studying a comprehensive revision of its copyright laws since 1986, but there is yet no indication when this review will be completed and new legislation enacted.

The Government recently introduced legislation intended to correct provisions of the amended Medicines Act which threatened patent, trademark, and copyright protection for pharmaceutical products in New Zealand. These amendments had purported to allow the Government to ignore, in some instances, trademark and copyright rights of imported pharmaceuticals. The U.S. Government notified the New Zealand Government of its concerns. The New Zealand Government introduced a bill in December 1989 designed to restore full intellectual property protection, but certain exceptions remain in the area of trademarks and copyright of parallel imports of medicines by the Government.

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8. Worker Rights

a. The Right of Association

New Zealand workers have unrestricted rights to establish and join organizations of their own choosing and to affiliate those organizations with other unions and international organizations. Unions have the right to strike and are protected from interference, suspension, and dissolution by the Government, and, in fact, influence legislation and government policy. Public sector unions, however, are precluded from striking if work stoppages pose a threat to public safety. Unions freely maintain relations with international bodies and participate in bilateral exchanges.

b. The Right to Organize and Bargain Collectively

The right of labor unions to organize and bargain collectively is assured by law. They actively recruit members and engage in collective bargaining. Sixty-four percent of wage earners are represented by unions. New Zealand unions operate under a "closed shop" system where union membership is compulsory if the majority of workers in a workplace vote in favor of union coverage. Mediation and arbitration procedures are independent of government control. A system of labor courts hears cases arising from disputes over interpretation of these laws. The Arbitration Commission and the Mediation Service are available to handle wage disputes and assist in maintaining effective labor relations.

c. Prohibition of Forced or Compulsory Labor

All New Zealand workers are protected from forced or compulsory labor by law and in practice.

d. Minimum Age for Employment of Children

Children under 16 may not be employed without special government approval and must not work between the hours of 10 p.m. and 6 a.m. These laws are enforced effectively.

e. Acceptable Conditions of Work

New Zealand enforces a 40-hour workweek, a minimum of three weeks' annual paid vacation for all employees, and observance of 11 paid public holidays. Most workers earn more than the hourly minimum wage which is the approximate equivalent of $3.50. In most cases, minimum wage recipients also receive a variety of government payments.

f. Sectors with U.S. Investment

U.S. investment is found in the chemical and other manufacturing sectors. There are no special export processing zones and labor laws are applied uniformly throughout the country.

NEW ZEALAND

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		217
Food & Kindred Products	-4	
Chemicals & Allied Products	93	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	14	
Electric & Electronic Equipment	10	
Transportation Equipment	(D)	
Other Manufacturing	77	
Wholesale Trade		158
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

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Key Economic Indicators

(Millions of pesos (p) unless otherwise stated)

	1987	1988	1989 (proj)	
Income, Production, and Employment				
Real GDP (1972 pesos)	95,481	101,592	107,484	
Agriculture/fisheries	26,834	27,771	28,887	
Industry	30,608	33,205	35,502	
of which manufacturing	23,186	25,251	27,120	
Services	38,039	40,616	43,017	
of which trade/commerce	15,153	15,832	16,759	
Real GDP growth rate (pct)	4.72	6.40	5.80	
Real per capita GNP (pesos)	1,653	1,724	1,774	
Labor force (000s)	22,563	23,449	24,225	
Unemployment rate (pct)	11.2	9.6	8.8	
Money and Prices				
Money supply (M1) (yr-end)	52,416	59,734	66,783	
Commercial int rate (pct) 1/	13.3	16.0	18.0	2/
Savings interest rate (pct)	4.5	4.1	4.3	2/
Investment rate (pct) 3/	11.1	13.4	14.3	4/
Consumer price index (1978 = 100)	368.7	401.0	443.0	
Wholesale price index Metro Manila (1978 = 100)	439.5	498.5	534.4	5/
Exchange rate (pesos/$)				
Official	20.568	21.095	21.80	
Parallel	20.794	21.186	22.05	
Balance of Payments and Trade (mils $)				
Total exports FOB 6/	5,720	7,074	8,040	
Exports to U.S. CIF 7/	2,481	2,906	3,375	
Total imports FOB 6/	6,737	8,159	9,560	
Imports from U.S. FAS 7/	1,599	1,880	2,200	
Aid 8/	776	667	728	
from the U.S.	229	115	257	
from other countries	547	552	471	
External public debt	22,751	22,668	23,500	
Debt service paid	2,936	3,057	3,228	
Central Bank forex resvs 9/	1,959	2,059	1,537	
Balance of payments 10/	264	516	1,500	

1/ bank lending rates on secured loans;.weighted average for all maturities
2/ actual weighted average rate for January - September
3/ money market rates; weighted average for all instruments
4/ actual average for January - August
5/ actual average for January - July
6/ based on Philippine Government data
7/ based on U.S. statistics

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Notes, cont.

8/ bilateral official development assistance
9/ actual international reserve position as of September
10/ Philippine Government target

Sources: National Economic and Development Authority, Central Bank of the Philippines, Department of Finance, IMF.

1. General Policy Framework

Since late 1986, the Philippine economy has logged a steady recovery, fueled first by strong consumer demand and then by a recovery of investment. Both have contributed to rising levels of imports, including from the United States. The GNP returned to pre-crisis levels in August 1988 and grew by 6.7 percent that year. The GNP should expand by approximately 5.5 percent in 1989. This generally positive economic outlook is clouded by several factors: inflation passed the 12 percent mark in September 1989 (from 7.8 percent in 1988); interest rates on commercial loans have risen to the 24-27 percent range; foreign debt service consumes roughly one third of export earnings, and servicing on total government debt requires 40 percent of budget expenditures. Further concerns exist about the country's rapidly expanding trade deficit and delays in adjusting domestic oil prices to world market levels.

As political imperatives tend to dictate fiscal policy, the Philippine Government's management of the economy focuses heavily on the use of monetary tools. The Central Bank uses reverse repurchase operations to moderate speculative pressures while short term Treasury bills are the major instrument used to control the growth of liquidity. Reserve requirements on commercial bank deposits were also raised recently to help meet monetary targets under the country's agreement with the International Monetary Fund. A recent decline in international reserves has led the Central Bank to place more emphasis on interest rates as a tool to control speculation against the peso. Philippine monetary policy has not been detrimental to U.S. exports and has in fact encouraged imports by shoring up the value of the peso.

As part of its IMF-monitored economic adjustment program, the Government has pledged to reduce fiscal deficits through a combination of restrained spending growth and improved tax collection. Progress is being made on the revenue side, but increased government expenditures will leave cash deficits in the range of 15 to 20 billion pesos (1.5-2.0 percent of GNP) for the next several years. Domestic deficit financing is accomplished almost exclusively through sales of short-term Treasury bills and Treasury notes. Program and project loans from official multilateral institutions are also used to finance fiscal shortfalls. In the last several years, approximately 40 percent of government expenditures have been channeled into servicing domestic and foreign debt. The Philippines' $27.6 billion foreign debt remains a preoccupation for policymakers.

The Philippines enjoyed a growing trade surplus with the United States, from $882 million in 1987 to $1,026 million in 1988, a 16 percent increase. U.S. imports of Philippine products, led by manufactured goods, rose 17 percent to $2,906 million, while U.S. exports amounted to $1,880 million. The Philippines' trade deficit of $1,085 million with the world during 1988 resulted from exports of $7,074 million and imports of $8,159 million. The high import-dependence of the Philippines' principal export products is a major source of growth for the country's imports of raw materials and intermediate goods.

2. Exchange Rate Policies

Commercial banks are required to make dollar purchases in the official interbank market, where the Central Bank has the opportunity to affect the market price. However, the banks meet a good portion of foreign exchange requirements by accepting dollar deposits. A parallel or gray market exists where traders offer dollars at a premium to those who cannot, or will not, justify their purchases under foreign exchange control regulations. The spread between the official and parallel rates, currently about two percent, is not significant enough to have a major effect on the competitiveness of U.S. exports. Nor can the Philippine peso be considered as artificially undervalued. On the contrary, most observers believe it is currently overvalued by a modest amount.

3. Structural Policies

The structural adjustment path which the Philippines has followed since the early 1980s continues under the aegis of a March 1989 memorandum of economic policy addressed by the Government to the IMF. This memorandum covers the period 1989-92 and lays out extensive policy objectives, potential structural reforms, and quantitative targets for measuring economic progress. Particular emphasis is placed on privatization of state-owned enterprises, improved tax administration and new revenue measures, financial sector reform, expanded public investment, and a continuation of the trade liberalization program that has already resulted in the removal of licensing requirements and other quantitative restrictions for 1,386 products. The sustainability of the current economic recovery will depend heavily on the implementation of these structural reforms.

The Government sets price ceilings for the utilities, and the transportation, oil and cement industries; the Government also sets base prices to be paid to producers of certain agricultural commodities, including rice, though enforcement is lax. Free-market pricing prevails for other sectors.

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No major tax reforms have been undertaken since the establishment of a value-added tax (VAT) in 1988. Efforts have instead concentrated on increasing the acknowledged low efficiency of tax collectors. Import duties account for roughly one quarter of total government revenues; income and excise taxes each contribute approximately one-fifth of total revenue, with the VAT adding another eight percent.

4. Debt Management Policies

As of April 1989, the Philippines' foreign debt totalled $27.6 billion, or roughly 65 percent of GNP. The debt is overwhelmingly public sector (80 percent) and is generally owed to commercial banks or suppliers (70 percent). Debt servicing consumes approximately one-third of export earnings. Servicing was suspended in 1983 in the midst of a larger political and economic crisis. Relations with the international financial community began to move back to normal with the completion of the first rescheduling agreement in 1985. The Aquino Administration, which came to power in 1986, has consistently reiterated the country's determination to service its debt while pursuing structural reforms to alleviate the debt burden through growth.

The Philippines has performed well under an IMF standby arrangement and a World Bank economic recovery loan, implementing the market-oriented reforms mentioned above. The country is on good terms with its commercial bank creditors: in late 1989, the Philippines negotiated up to $1 billion in new commercial loans, coupled with a buy-back operation which should retire about $1.3 billion in existing debt. Since 1983, the Philippines has periodically rescheduled both its commercial and its Paris Club (official) creditor debt.

In July of 1989, the United States joined with Japan and many of the Western European nations and international financial institutions to pledge $3.5 billion to assist the Philippines under the Multi-lateral Assistance Initiative (MAI). This fund is to provide capital essential to stimulating growth, linked with required policy reforms. The U.S. Congress has appropriated $160 million for FY 1990 as the initial U.S. contribution.

5. Significant Barriers to U.S. Exports and Investment

Tariffs and Other Import Charges: Tariff reform was undertaken by the Government as part of a broader trade liberalization program agreed to under a 1981 structural adjustment program with the World Bank. As a result, most tariff rates were set between 10 and 50 percent and average nominal tariff rates fell from 42 percent in 1979 to 29.17 percent in 1985. Effective August 21, 1989, however, Executive Order No. 364 reduced the minimum 10 percent tariff rate to zero, while the maximum rate remains at 50 percent. Tariffs were reduced by this Order on a selected number of raw materials and other items not locally available.

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Tariffs on many agricultural products of export interest to U.S. exporters have not been reduced and still stand at the maximum 50 percent rate. Reducing tariffs to the 20 to 30 percent range could increase sales of U.S. agricultural products in the Philippines by $10 to $25 million. Although a ban on the importation of certain fresh fruits was lifted in April 1988, some agencies of the Government continue to press for greater protection vis-a-vis apple imports. Import Licenses: Prior clearances from Philippine Government agencies, such as the Central Bank, the Board of Investments, and agencies of the Department of Trade and Industry, are no longer needed in order to open letters of credit for most imports, under the Government's import liberalization program. However, clearance requirements for certain restricted or controlled items still apply. Commodity imports financed through foreign credits still require the prior approval of the Central Bank.

Between 1981 and 1985, licensing requirements were lifted on 995 items. Under the first two-year phase of a renewed import liberalization program adopted by the Aquino Government in 1986, clearance requirements were removed from 1,292 additional products. The second phase of this program targets 673 more items; 157 of these have been deregulated as of June 30, 1989. The remaining 516 items include products which are more sensitive (such as animal and meat products, and consumer durables). In addition, over 100 of these products are unlikely to be liberalized for reasons of health, safety or national security.

Services Barriers

Banking: Foreign bank branches have been denied entry since 1948. Foreign participation is currently limited to no more than 30 percent (40 percent with presidential approval) of voting stock in existing domestic banks.

Insurance: The licensing of new domestic and foreign life insurance companies has been suspended since 1947, and that of new non-life insurance firms since 1966. Under the Philippine Insurance Code, foreign insurance firms are defined as those organized under laws outside the Philippines. There are about 10 such firms operating in the Philippines. Companies organized under Philippine law, even if majority foreign-owned, are defined as domestic firms. There are about seven such companies in the country which were operating before the 40 percent nationality cap on foreign investment was imposed.

Securities: Only domestically incorporated companies may engage in the securities brokerage business, but the Government allows majority foreign ownership in this activity. A foreign investor who wishes to purchase shares of stock of a domestic corporation is limited by national ownership requirements.

Motion Pictures: Universa (UIP), a major distributor of motion pictures, was prevented from doing business in the

Philippines for more than a year during adjudication of its license application before the Bureau of Investments. However, the application, involving the freedom to choose a local agent, and discrimination as to nationality, was resolved to UIP satisfaction, and the firm is now operating in the Philippines. Other industry problems include excessive taxation, pressure from the local motion picture industry for an increase in reserved time in theaters for locally-produced films from the current level of 30 percent, and still rampant piracy (see Section 7).

Standards, Testing, Labeling and Certification: The Generics Drug Law of 1988 has begun to be implemented. By December 31, 1989, it should be fully in force. Implementing regulations issued by the Department of Health under Generics Act Authority call for the generic name of most single ingredient drugs to appear above the brand name, in a slightly larger typeface, and enclosed in a box, with contrasting backing. The guidelines also required Department approval for all new labels. When approvals began to emerge slowly from Department, final implementation of the law was postponed several times, but a request by the larger companies to delay full implementation until the second quarter of 1990, was opposed by the Department and eventually rejected by the courts. Labeling changes caused by the Generics Act have imposed substantial costs amounting to millions of pesos on all pharmaceutical firms, but given the structure of the industry, these costs are disproportionately borne by foreign-owned firms.

Investment Barriers: Foreign investment in the Philippines is subject to national ownership requirements contained in the Philippine Constitution and in other laws. In most cases, foreign ownership is limited to no more than 40 percent of capital stock. More than 40 percent foreign ownership may be allowed by the Philippine Board of Investment (BOI) in promoted investment activities, but divestment to 40 percent equity share should be undertaken within 30 years. Only Filipino citizens or corporations, at least 60 percent Filipino-owned, may own land.

The Department of Labor allows the employment of foreigners provided that there are no qualified Philippine nationals for the position. However, the employer must train Filipino understudies and report such training periodically. The Philippine Constitution explicitly states that all executive and managing officers of firms engaged in mass media and in the operation of public utilities should be Filipino citizens.

The remittance of profits and repatriation of investment are currently allowed in full but, if necessary, are subject to emergency foreign exchange provisions. The permissible period for the repatriation of investment currently ranges from 1 to 9 years, depending on net foreign exchange earnings, the size of investment and the type of industry, with more liberal treatment accorded to investments in export-oriented, government-registered or import-substituting industries.

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The Philippines currently does not provide guarantees against losses due to nationalization, damage caused by war, or inconvertibility of currency. However, a full OPIC Agreement is in effect, and U.S. investors may contract for coverage under this arrangement.

The Government imposes a higher tax on foreign cigarette brands, although manufactured locally and using local tobacco. The Government cites a 1984 GATT waiver as permitting that discrimination until the end of 1989, and extended to end of 1991. There also has been some lobbying for the reduction of foreign equity in the life insurance and pharmaceutical industries, but government officials generally agree that those moves are ill-timed and run counter to the often repeated government pronouncement of encouraging foreign investment.

Customs Procedures: One element of the import liberalization program is a pre-shipment inspection of imports from some Asian countries which has been imposed to prevent misdeclaration of goods into the Philippines and an evasion of tariffs. This service was expanded in mid-1989 from three countries (Japan, Hong Kong, Taiwan) to cover imports from a total of nine countries (including South Korea and all ASEAN countries). The Philippine Government has been working to make custom procedures more transparent and to minimize widely reported irregularities and corruption in the system. Customs collections are improving and increased by 21 percent in 1988.

6. Export Subsidies Policies

The Philippine Omnibus Investment Code of 1987 provides for several programs which benefit Philippine industry. These include tax and duty exemptions for imported capital equipment, tax credits for purchases of domestic capital equipment and net local content of exports, and tax deductions equal to 20 percent of gross export sales for registered export traders.

When the Philippines acceded to the GATT Subsidies Code in 1985, it agreed gradually to eliminate its export subsidy programs, including export packing credits. The first two years, beginning April 1, 1985, was a standstill period, during which the Government pledged not to increase the overall level of subsidies and not to extend the benefits of any existing programs to new products or producers. In addition, the Philippines agreed gradually to phase out all of the export subsidy elements contained in the Omnibus Investment Code on or before April 1, 1990.

7. Protection of U.S. Intellectual Property

The Philippine Government is a party to the Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property.

THE PHILIPPINES

With some important exceptions--involving provision for compulsory licensing of internationally copyrighted and patented items--Philippine intellectual property laws are generally viewed as adequate. Enforcement is a problem, however, and thus the Philippines were included in the "Watch List" of countries judged to have inadequate intellectual property rights protection, as provided for under Special 301 of the 1988 Omnibus Trade and Competitiveness Act. Raids on offending premises can be arranged and carried out relatively efficiently, the subsequent court cases become entangled in an often slow-moving Philippine justice system. This undermines the deterrent effect of the law and is a reason for continuing piracy of video cassettes, and widespread trademark violations.

Patents: A government draft revision of patent legislation under consideration would significantly shorten the term of protection and make compulsory licensing easier. Other draft legislation in the Philippine Congress would abolish outright patents for pharmaceuticals. Philippine Congressional action on these proposals is moving slowly and they remain a concern.

Trademarks: Counterfeiting of trademarked items is a serious problem in the Philippines. Many well known items ranging from textiles to auto spare parts are counterfeited. Enforcement actions are possible, but cases move slowly through the courts. Trademark registration procedures move very slowly because of inadequate staffing at the Patent and Trademark office.

Copyrights: Video cassettes and computer software are widely pirated. Enforcement is ineffective. Textbooks, especially computer software manuals, are subject to compulsory licensing. Legal music cassettes have managed to hold their own as a result of strong industry organization and anti-piracy efforts. There is essentially no market for legal computer software, beyond the biggest firms; the few legal video distributors here lose money on their operations; and publishers/authors of non-fiction books suffer losses of royalty in a growing market.

8. Worker Rights *

a. The Right of Association

The right of workers, including public employees, to join trade unions is assured by the Constitution and legislation, and is freely practiced without government interference. An estimated 10 percent of the employed work force of some 23 million is organized into over 3,705 trade unions. Strikes are legal, including in export processing zones, and occur frequently. Industrial relations disputes in 1988 resulted in over 1.525 million workdays lost in 267 strikes. The Government pursues legal efforts to resolve disputes and has rejected calls for "no-strike laws." Random violence against union leaders has stimulated complaints recently.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is provided for in law. This right was expanded and strengthened by the Labor Law Reform Act of 1989, which balances the need for greater stability in labor relations with full respect for worker rights. Since 1986, the number of collective bargaining agreements in force has increased from 3,112 to 3,941. Labor legislation is applied uniformly throughout the country, including in export processing zones.

c. Prohibition of Forced or Compulsory Labor

The Government prohibits forced labor, and there are no reports of it being practiced.

d. Minimum Age for Employment of Children

The Constitution bars employment of children below 15, except under the sole responsibility of parents or guardians and then only if the work does not interfere with schooling.

e. Acceptable Conditions of Work

The minimum wage in nonagricultural enterprises is $4.11 per day and in agribusiness is $3.75 per day (exchange rate of 21.095 pesos/$1.00). The standard work week is 48 hours, with one full day of rest per week. Employees with more than one year on the job are entitled to five days of paid leave. A comprehensive set of enforceable occupational safety and health standards is in effect, and the standards for protecting workers against hazards of the work place and harmful substances are relatively advanced.

f. Rights in Sectors with U.S. Investment

Conditions in the goods producing sectors with U.S. investment tend to be better than those in Philippine industry as a whole. Firms with U.S. investment are organized extensively by all of the unions within the broad spectrum of local labor organizations. Nearly all of these firms have concluded collective bargaining agreements. The labor relations scene in companies with U.S. capital is at least as active, if not more so, as that in industry generally as a result of greater expectations regarding pay, benefits, and fair play from U.S.-Philippine joint venture management.

Firms with U.S. investment have acquired a reputation for being responsible and responsive to their workforce. Members of the Industrial Relations Committee of the American Chamber of Commerce meet regularly to consult and to coordinate labor-management relations activities. The prevailing lowest wages in companies with U.S. capital are generally much higher than the legal minimum wage. Employees in most of these firms work a 40-hour week with premium overtime pay. All of the largest firms with U.S. participation apply U.S. standards of worker safety and health, mainly because of the requirement of their U.S. insurance carriers.

THE PHILIPPINES

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		127
Total Manufacturing		612
Food & Kindred Products	238	
Chemicals & Allied Products	236	
Metals, Primary & Fabricated	17	
Machinery, except Electrical	-3	
Electric & Electronic Equipment	96	
Transportation Equipment	-2	
Other Manufacturing	29	
Wholesale Trade		101
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		840

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Philippines country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

SINGAPORE

Key Economic Indicators

(Millions of Singapore Dollars (S$) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, and Employment			
Real GDP (1985 mkt pcs)	43,095.3	47,908.4	51,741.0
Real GDP growth rate (pct)	8.8	11.0	8.0
GDP by major sectors			
Manufacturing	11,650.5	13,821.1	15,129.0
(pct of total)	27.0	28.8	29.2
Construction	2,854.2	2,742.4	2,682.0
(pct of total)	6.6	5.7	5.2
Commerce	7,336.7	8,566.1	9,262.0
(pct of total)	17.0	17.9	17.9
Transport/communications	6,173.5	6,806.2	7,446.0
(pct of total)	14.3	14.2	14.4
Financial/business/svcs	12,304.9	13,151.2	14,835.0
(pct of total)	28.6	27.5	28.7
Per capita income (S$)	16,561.6	18,837.4	19,452.0
Labor force (thousands)	1,251.7	1,281.4	1,300.0
Unemployment rate (pct mid-yr)	4.7	3.3	2.0
Money and Prices			
Money Supply (M1) (pd end)	11,030.5	11,957.7	13,405.0
Commercial interest iates (pd end)			
Prime lending	6.1	6.1	6.3
3-months fixed deposit	2.9	3.0	3.3
6-months fixed deposit	3.1	3.3	3.8
12-months fixed deposit	3.6	4.0	4.6
Savings rate (pct of GNP)	40.8	42.0	42.0
Investment rate (pct of GNP)	38.2	35.3	36.0
Consumer price endex (base June 82-May 83)	102.8	104.4	107.5
Wholesale price index (base 1985)	91.3	89.6	91.7
Exchange rate (S$/U.S.$) 1/	2.11	2.01	1.94
Balance of Payments and Trade			
Total exports FOB	60,266.0	79,051.3	88,221.0
Exports to U.S. FOB	14,695.0	18,826.0	20,557.0
Total imports CIF	68,416.0	88,228.0	97,226.0
Imports from U.S. CIF	10,062.1	13,718.4	16,860.0
Aid from U.S. (IMET)	0.1	0.1	0.1
Aid from other countries 2/	N/A	N/A	N/A
External public debt (yr-end)	303.2	240.8	195.0
Annual debt service payments	74.5	120.6	100.0
Total forex reserves	30,441.7	33,276.6	36,000.0
Overall balance of payments	2,328.5	3,343.6	4,000.0

1/ The 1989 exchange rate has been estimated by averaging data for the first half of the year.

2/ Singapore does not receive bilateral aid, but benefits from donor ASEAN-wide efforts.

SINGAPORE

1. Economic Structure and Policy Framework

Singapore is a small island-nation with 2.65 million people and no natural resources. Since its founding as a British colony in 1819, Singapore has filled an economic niche as a shipping center and entrepot port, taking advantage of its strategic location and resourceful people. The dearth of physical resources and tiny domestic market have led the Government of Singapore to develop an outward looking, export-oriented economic policy framework that encourages two-way flows of trade and investment. It has become a major center for light manufacturing, financial and other services, and oil refining--primarily by offering a politically stable location; a pro-free enterprise and corruption-free regulatory environment; developed infrastructure; relatively low cost, efficient, and non-ideological labor; and significant tax concessions.

Singapore's rapid economic growth--averaging about nine percent in real terms from 1965 to 1984, the first twenty years of independence--created a tremendous demand for imports, including those from the United States. During this period, Singapore moved from a labor surplus to a labor deficit economy and began to import a growing number of foreign workers to supplement the country's indigenous workforce. Large flows of foreign investment capital more than offset current account deficits and Singapore was able to steadily build a sizable foreign exchange reserve position. During the late 1970s and the first half of the 1980s, the Singapore Government adopted expansionary fiscal policies through development expenditures, especially for infrastructure and housing. It also encouraged increases in real wages and non-wage benefits and improved its provision of social services for the general population.

By 1985 Singapore, with a largely labor intensive economy and an overvalued exchange rate, had become uncompetitive. This loss of competitive edge--combined with a decline in investment and a sharp fall in world commodity prices that led to a recession in the region--caused an 18-month recession that shocked a nation and government that had come to assume that steady economic growth was a fact of life. Shaken by the recession, the Government moved quickly to restore competitiveness by imposing a draconian two-year wage restraint policy, as well as cutting taxes for both individuals and businesses.

Spurred by rising demand for its exports, Singapore's economy recovered modestly in 1986. Exports accelerated sharply in 1987 and have maintained their momentum since. Complemented by rising domestic demand, this export boom has led to strong overall growth and a consequent rise in imports, including imports from the U.S.

In addition to restoring competitiveness, the recession scare caused the Government to step up its efforts to restructure the economy by shifting from labor intensive industries to capital intensive, higher value added production technologies and to services. The Government is now much more selective in its efforts to attract foreign investment and has begun to encourage and assist more mature industries to relocate to lower labor cost neighboring countries. The Government has had some success in its restructuring effort, which will require many years and have to overcome a variety of obstacles, the most serious being the continued shortage of manpower at all skill levels.

Since independence, the Government has run a budget surplus in every year but one. The sharp tax cut stimulus it imposed to deal with the recession eventually led to a small budget deficit in 1987. In its fiscal year 1988, the surplus was 1,326 million Singapore dollars, or 2.7 percent of GDP. The surplus in 1989 was projected to fall to S$639 million. The Government has traditionally been quite conservative fiscally, usually overestimating expenditures and underestimating revenues. Development expenditures have remained low as infrastructure projects have been largely completed, while the current high rate of economic growth has swelled revenues.

One particularly significant structural factor of the Singapore economy is its tremendously high national savings rate. Compulsory savings in the form of employer and employee contributions to the Central Provident Fund (the Singapore equivalent of our Social Security Fund) have formed the basis of a national savings rate that has averaged about 40 percent of GDP this decade. These savings have funded the Government' heavy investment in housing and infrastructure. But as investment projects have been completed, total national investment has fallen behind savings, leading to current account surpluses. Over the medium term the Government will need to stimulate domestic consumption to bring savings and investment back into line.

With such a small economy and no deficit to finance, Singapore's money and bond markets, although not underdeveloped, are not very active. The Government issues Treasury bills and government bonds with the primary intent of having an investment vehicle for financial institutions' reserve requirements and to provide liquidity to the money market. Accordingly, as of mid-October 1988 the Government had only Singapore dollars 39.4 billion (US$ 20.3 billion) in outstanding paper. The government's monetary policy has also been quite conservative. Its reserve requirement is that 24 percent of each financial institution's deposit liabilities must be held in liquid assets.

The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money market operations to influence interest rates and money supply growth. Its operations during the past year have involved use of swaps and interbank markets to mop up excess liquidity in the domestic banking system. Singapore is such a small and open economy that its money supply and domestic interest rates are primarily determined by international, rather than local, conditions. As Singapore is so dependent on trade, effective management of its exchange rate--keeping the Singapore dollar strong--is the Government's most important tool to control inflation. There are no controls on capital movements, a condition that limits the scope of the Government to maintain an independent monetary policy. For example, the Government does not set targets for monetary aggregates.

2. Exchange Rate Policies

The Singapore dollar's exchange rate is determined by an MAS-managed, market-related float against an undisclosed trade-weighted basket of currencies. The MAS uses currency swaps and direct purchases or sales of foreign exchange as tools to keep the Singapore dollar within the desired trading range. The U.S. dollar is its intervention currency. The Singapore dollar's value versus other currencies is determined by the cross rates of its daily fluctuations against the U.S. dollar in the international foreign exchange markets. The Singapore dollar is freely convertible; only a single rate exists. Forward quotations against the world's major currencies are available in the very active local foreign exchange market.

The Government contends, and most observers including the IMF agree, that the Singapore dollar became relatively overvalued during the early and mid- 1980s due primarily to the government's policy of maintaining a strong currency to keep inflation low. However, after the 1985-86 recession and the decline of the U.S. dollar in 1986 and 1987, the Government limited the appreciation of the Singapore dollar vis-a-vis the U.S. dollar to about 20 percent. This limited rise reflected its previously overvalued level. The Singapore dollar has traded recently in a narrow range of S$1.89-1.97.

3. Structural Policies

Singapore maintains an open, free trade orientation supported by moderately expansionary macroeconomic policies that play a neutral to positive role in attracting U.S. exports. Prices for virtually all products, from food to electronic goods to capital, are market determined. The Government maintains tariffs on a few imports and significant excise taxes on cigarettes, alcohol, petroleum products, and motor vehicles. There are no non-tariff barriers on foreign goods. U.S. exports can enter the market and compete freely. In fact, in 1988 Singapore's imports of U.S. goods rose more than 35 percent over 1987. For the first eight months of 1989, U.S. exports to Singapore were up 22.9 percent and the bilateral trade deficit had fallen by 30.8 percent.

Singapore's prudent and conservative fiscal and tax policies have had a basically positive long-term effect on it as a market for U.S. exports. While more stimulative policies might have boosted U.S. exports to Singapore in any one period, its long-term economic health and development have made it a steady and reliable market. Indeed the Government's fundamentally sound economic management is an important reason why U.S. companies have invested so heavily here. For example, in the wake of the 1985-86 recession, the Government introduced a package of cost-cutting measures and tax incentives. It reduced corporate and maximum individual tax rates from 40 to 33 percent; cut by 60 percent employers' central provident fund contributions (from 25 to 10 percent of an employee's salary); and increased the property tax rebate to 50 percent. In addition, to encourage further investment, investment allowance incentives were liberalized; offshore income earned by investors from funds managed in Singapore was made tax exempt; incentives for venture capital projects were improved; the expansion incentive scheme was modified to allow companies an effective tax rate of as low as 10 percent upon expiry of "pioneer" status 8usually 7-10 years but varies with each case); and tax incentives were introduced for investment in research and development and oil trading. All these "supply side" measures have helped foster Singapore's economic recovery and its economic growth rate of 11.0 percent in 1988 and an expected 8-9 percent for 1989.

4. Debt Management Policies

Singapore's external debt is negligible, a mere U.S. $123 million at the beginning of 1989. That figure required service payments of U.S. $59.9 million in 1988, resulting in a debt service ratio of 0.12 percent. Singapore's external debt peaked in 1982 at U.S. $709 million. The country has had current account surpluses for most of this decade, and inflows of investment capital have facilitated overall balance of payments surpluses for practically its entire independent history. As a result, Singapore's reserves have grown sharply in recent years. From U.S. $7.5 billion in 1981, Singapore should have a reserve position of about U.S. $18.6 billion by the end of 1989, giving it one of the highest per capita reserve levels in the world.

5. Significant Barriers to U.S. Exports and Investment

With the exception of discriminatory restrictions in the services sector and a weight-based tax system on imported cigarettes, Singapore has few barriers to U.S. exports. Import licenses are not required, customs procedures are minimal, the standards code is reasonable, and the Government actively encourages foreign investment. All major Government procurements are by international tender.

One area in which we have identified several, albeit minor, problems has been in services. The government telecommunications monopoly excludes competition, thereby prohibiting introduction of U.S.-owned airline reservation systems. The Government also bans the issuance to foreigners of new licenses to set up insurance companies, banks, and brokerages. The expansion of automated teller machines is also restricted. U.S. accountants, lawyers, doctors, and architects have experienced problems in obtaining local certification of their professional qualifications. Another area is the case of cigarettes, where the Government imposes import duties on foreign products that, relative to the excise taxes collected on locally manufactured cigarettes, put the American products at a competitive disadvantage in the market place.

During the first four years of this decade the U.S. ran a trade surplus with Singapore. A subsequent structural change--unrelated to the exchange rate--in the U.S.-Singapore trade relationship has led to growing U.S. bilateral trade deficits since 1985. Specifically, after a number of years of heavy inflows of U.S. investment capital into production facilities (which earlier financed Singapore's imports of U.S. capital goods and contributed to its large trade deficits with the United States, subsidiaries of American companies are now exporting back to their parent companies. The exports of these subsidiaries of U.S. firms have led to Singapore's more recent bilateral trade surpluses. Thus, the healthier the U.S. economy, the more U.S. companies will need the output of their Singapore subsidiaries, which will in turn maintain Singapore's bilateral trade surplus.

6. Export Subsidies Policies

The Government of Singapore does not typically provide substantial export subsidies. However, through the Monetary Authority of Singapore it does provide short-term export financing which is slightly below commercially available interest rates. In addition, under the Economic Expansion Incentives Act, an exporting company incurring new capital expenditures may claim corporate income tax exemptions on 90 percent of its export profits above a certain predetermined base.

The Government actively promotes exports, and the Singapore economy is extremely export-oriented and trade is its lifeblood. The Government offers significant incentives to attract foreign investments which, because of the small domestic market, is almost all in export-oriented industries. It does not use some of the more common policy tools to promote exports such as multiple exchange rates, export promotion funds, or import cost reduction measures.

7. Intellectual Property Protection

Singapore is not a member of any of the principal intellectual property rights accords. However, in January 1987, following close consultations with the U.S. Government, the Singapore Government enacted strict, comprehensive copyright legislation that significantly strengthened its ability to prosecute copyright violators. Highlights of the law include:

- relaxing burden of proof requirements, so that copyright owners may more easily press charges for infringement;

- enacting stronger civil and criminal penalties; and

- codifying possession of copyrighted material as an offense in certain cases.

The Singapore Attorney General's office is currently drafting similar legislation, designed to protect patents and trademarks.

The enforcement system under the copyright legislation relies heavily on copyright owners to combat infringement. Industries or individuals discovering pirating press claims through civil or criminal courts; the Commercial Crime Division of the Ministry of Law--when presented with evidence--investigates copyright violations and then refers the case to the Attorney General's office for a decision on prosecution. In this new framework, American manufacturers have set the pace in cracking down on copyright violations. Most pirating operations have shut down or moved out, and while limited clandestine sales of pirated material continues (notably software programs), Singapore's new law and strict enforcement are proving quite successful.

During the past 18 months, the Government has undertaken highly publicized and largely successful campaign against sales of counterfeit designer watches and leather goods. Pending trademark and patent legislation should further strengthen enforcement. In terms of overall impact, Government intellectual property policy is positive and improving. Singapore wants to encourage high tech industry and its strong new intellectual property laws are now serving to help attract U.S. investment. Judging from the positive government response to manufacturers who uncover illegal pirating operations, losses to U.S. firms from counterfeiting are estimated to be minimal and decreasing.

The Government reportedly continues to import medicines, without full regard for the rights of patent holders.

8. Worker Rights *

a. The Right of Association

Article 14 of Singapore's Constitution gives all citizens the right to form associations, including trade unions. Parliament may impose restrictions based on security, public order, or morality. The right of association is delimited by the Societies Act and Labor and Education regulations and laws. Some 210,000 of the national labor force of 1.2 million are organized into 89 trade unions. Some 70 of these, representing about 98 percent of the unionized workers, are affiliated with the National Trade Union Congress (NTUC), which has an interlocking relationship with the Government.

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b. The Right to Organize and Bargain Collectively

The Trade Unions Act authorizes the formation of unions with broad rights. Collective bargaining is a normal part of management-labor relations, particularly in the manufacturing sector. On the average, collective bargaining agreements are renewed every two to three years.

c. Prohibition of Forced or Compulsory Labor

Singapore law forbids the use of forced or compulsory labor, and such labor is not found in Singapore.

d. Minimum Age of Employment of Children

The Government enforces the Employment Act which sets the minimum age for the employment of children at 12 years.

e. Acceptable Conditions of Work

The Singapore labor market offers relatively high wage rates and working conditions consistent with accepted international standards. However, Singapore has no minimum wage or unemployment compensation. Because of a continuing labor shortage, wages have generally stayed high. The Government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, have reduced job-related accidents by one-third over the past decade.

f. Rights in Sectors with U.S. Investment

Substantial U.S. capital has been invested in petroleum, chemicals and related products, electric and electronic equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in others, except that the labor-short electronics industry hires many unskilled foreign workers. The Government controls the number of foreign workers directly through immigration regulations and indirectly through levies on firms hiring foreign workers. Foreign workers face no legal wage discrimination, but they are concentrated in low-wage jobs.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category		Amount
Petroleum		559
Total Manufacturing		2,000
Food & Kindred Products	21	
Chemicals & Allied Products	192	
Metals, Primary & Fabricated	-4	
Machinery, except Electrical	306	
Electric & Electronic Equipment	1,434	
Transportation Equipment	33	
Other Manufacturing	17	
Wholesale Trade		114
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,673

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Singapore country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Billions of new Taiwan dollars (NTD) unless otherwise noted)

	1987	1988	1989 (est)	
Income, Production, and Employment				
GDP at current prices	3,223	3,497	3,892	1/
Real GDP (at 1986 prices)	3,207	3,443	3,715	1/a
Real GDP growth (pct)	12.3	7.8	7.2	1/
Real GDP by sector				
Agriculture	171	176	170	2/
Industries	1,527	1,600	1,700	2/
Manufacturing	1,278	1,324	1,402	2/
Others	249	276	298	2/
Services	1,509	1,667	1,845	2/
Real per cap income (NTD)	153,773	165,884	181,698	1/
Labor force (000s)	8,183	8,247	8,470	1/
Unemployment rate (pct)	1.97	1.69	1.65	1/
Money and Prices				
Money supply (M1b)	1,568	1,950	1,849	1/
Comm'l interest rate (pct)	6.25-8.75	6.75-8.75	7.25-11.75	3/
Savings rate (pct)	38.46	34.45	31.56	1/
Investment rate (pct)	18.86	20.22	21.22	1/
CPI (1986 = 100)	100.52	101.81	105.78	4/
WPI (1986 = 100)	96.75	95.24	95.72	5/
Exchange rate (ntd/$)				
Official	31.59	28.58	26.14	6/
Unofficial	31.53	28.61	26.20	6/
Balance of Payments and Trade (mils $)				
Exports FOB	53,612	60,585	67,706	1/
Exports to U.S.	23,660	23,431	23,998	7/
Imports CIF, ex-gold 8/	34,557	46,778	54,748	1/
Imports from U.S., ex-gold 8/	7,229	10,124	12,235	7/
External public debt	2,273	1,871	1,280	9/
Gold and forex reserves	79,446	79,292	80,000	10/
Balance of payments	20,313	5,300	-1,500	11/

1/ Estimates by the Directorate General of Budget and Accounting.

2/ Extrapolated from the first three quarters.

3/ We assume that commercial interest rates would remain at the present level through the end of the year.

4/ CPI, or the consumer price index, rose 3.92 percent in the first and 5.13 percent in the second quarter. The growth rate slowed from 5.7 percent in April to 3.3 percent in August. We are projecting a 3.9 percent CPI growth rate for 1989.

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5/ WPI stands for the wholesale price index. Wholesale prices rose 3.25 percent in March, 0.6 percent in May, but fell 2.26 percent in August. We estimate 1989 WPI to be 0.5 percent higher than the 1988 WPI.
6/ Average exchange rates calculated by averaging end of month figures for the year. Rates at the end of the last three months of 1989 are estimated at 25.5:1.
7/ From unofficial AIT estimates based on historical patterns and recorded performance for first eight months of 1989.
8/ Excluding gold imported by Taiwan's Central Bank: $400 million from the U.S. in 1987, $2,878 million from the U.S. in 1988, and $18 million from the U.K. in 1989.
9/ Taiwan repaid about $402 million in 1988, leaving outstanding external public debt at $1,871 million. Of the 1988 repayment, 62 percent was made in the first half year while 38 percent in the second half. In the first half of 1989 repayment was $363 million. Assuming that repayment in the second half follows the pattern in 1988, total 1989 repayment is estimated in the $500 to 600 million range.
10/ Gold and forex reserves at the end of July 1989 were about $82 billion. Taiwan suffered a balance of payment (BOP) deficit ($0.4 billion) in the second quarter due to net capital outflow. Assuming that capital outflow and the BOP deficit will continue in the following two quarters, we estimate total reserves would decline from $82 billion to $80 billion in the last five months of 1989.
11/ From AIT/T balance of payments report.

1. General Policy Framework

Although remaining an export-oriented economy, Taiwan has done much in the last two years to redress its large trade surplus, in particular its surplus with the United States. It has revalued its currency, promoted capital flow, reduced import barriers, and encouraged the purchase of U.S. goods. Between September 1985 and year-end 1989 the NT$:U.S.$ exchange rate rose 54.9 percent from NT$40.55:$1.00 to NT$26.71:$1.00. In mid-1987 Taiwan removed all restrictions on foreign exchange transactions arising from trade in goods and services. In April 1989, Taiwan implemented further reforms in foreign exchange regulations. There are no clear indications that the exchange rate is currently being manipulated by Taiwan for competitive advantage. The exchange rate has largely stabilized in the NT$25.50:$1.00 to the NT$26.00:$1.00 range since June 1989.

In March 1989 Taiwan announced a four-year (1989-1992) Trade Action Plan (TAP) to reduce its trade imbalance with the United States, including a schedule to reduce the average nominal tariff rate to 7.0 percent by 1992. There were comprehensive tariff cuts prior to the TAP, in January 1987 and February 1988. Together with the latest round of cuts in August 1989 -- including cuts on 366 of the 588 items requested by AIT -- the average nominal tariff rate has fallen from 26 percent in 1986 to 9.7 percent in 1989, and the average real effective rate from 7.6 percent to 4.7 percent over the same period.

After peaking in 1987, the U.S. trade deficit with Taiwan fell 14.4 percent in 1988 to $15.2 billion (excluding $2.5 billion in gold exports to Taiwan's Central Bank), the second largest after the $52.1 billion deficit with Japan. According to preliminary U.S. Department of Commerce data, the deficit for the first eight months of 1989 fell 11.8 percent from the ex-gold level a year earlier to $12.3 billion. U.S. companies signed over $4 billion in contracts with Taiwan entities in the first ten months of 1989. However, work still needs to be done to reduce this large, albeit diminishing imbalance.

Fiscal Policy: Taiwan has generally followed a conservative balanced budget fiscal policy. In their attempt to stimulate domestic consumption and investment and reduce the trade surplus, the authorities have cut corporate and personal income taxes and expanded the planned deficit from ntd 75 billion, or 15.5 percent of the budget in fiscal year (FY) 1988 (beginning 7/1/87), to NT$158 billion or 23 percent of the FY1990 budget. The innate conservatism of the financial authorities has led them to consistently anticipate large deficits but realize either much smaller ones or a surplus. For example, in FY1987, the actual deficit was about one-sixth the budgeted amount. In FY1988, there was a NT$10 billion surplus instead of the budgeted NT$75 billion deficit. If the past is any guide, FY1989 and FY1990 would also end up with deficits much smaller than their respective budgeted amounts of NT$139 billion and NT$159 billion.

Monetary Policy: Taiwan's banking sector is 95 percent state owned or controlled. Taiwan's Central Bank controls money supply via adjustments in the reserve requirement, the discount rate, and open market operations. Excess liquidity in the system led to high money supply growth rate -- in the 20 to 30 percent range -- through early 1989. Tight credit measures implemented in the first quarter of 1989 led to a fall in that rate to 8.5 percent by August 1989. The amended banking bill promulgated in July 1989 decontrolled interest rates.

2. Exchange Rate Policies

Taiwan used to maintain strict control on foreign exchange transactions and the Central Bank used to intervene heavily in the foreign exchange market. In April 1989 Taiwan carried out extensive foreign exchange reforms. The annual ceiling on non-trade outward remittances now stands at $5 million and that on inward remittances $1 million. Amounts above these limits require approval from the Central Bank. In June 1989 a new Governor and a new Foreign Exchange Chief were named to the Central Bank. There are no clear indications that the exchange rate is currently being manipulated by Taiwan for competitive advantage. The new Taiwan dollar (NT$) exchange rate against the U.S. dollar, having appreciated 55 percent since the Plaza Five meeting in September 1985, has now stabilized in the NT$25.50:$1.00 to NT$26.20:$1.00 range. The NT dollar remains a domestic currency and is traded only on the local market.

3. Structural Policies

Pricing Policies: Prices for most commodities are set largely via market mechanisms. While Taiwan pays prevailing international prices for most imports, final retail prices are inflated by commodity taxes, traditional consumer psychology (the more expensive the better), and cartel arrangements in the domestic distribution system. Since state-run enterprises are estimated to supply one-third of the GNP, the authorities have the power to influence prices for key commodities such as power, transport, cement, and steel. Taiwan authorities announced in July 1989 plans to privatize partially nineteen public enterprises including five banks, three insurance firms, two transport companies, and two iron/steel manufacturing plants. Domestic and overseas official procurement is by open tender, restricted tender, or negotiation.

Tax Policies: Taiwan has steadily cut taxes during the past two years in order to encourage investment and domestic consumption. In May 1989, a tax reform committee suggested further reduction in the personal income tax rates but increases in corporate income tax rates and elimination of the tax exempt status for military and education personnel. The Finance Ministry and the Executive Yuan (Cabinet) has approved a draft tax bill that incorporates the tax reduction measures recommended but rejects tax hikes. The bill also proposes to eliminate the commodity tax on 9 of 42 products and decrease the rate on 16 of them by 16 - 50 percent. After the August 1989 tariff reduction, the average nominal and real effective tariff rates have dropped to 9.7 percent and 4.7 respectively, compared to 26.0 percent and 7.6 percent in 1986. The tax rebate program for imported components of export goods is being phased out. By September 1989, three quarters of 4,800 eligible import items had been removed from the rebate program.

Regulatory Policies: The agricultural sector is closed to foreign investment. With well-defined exceptions, foreigners cannot invest in land or the stock market. Access to the services sector is restricted although controls are gradually loosening. Foreign investment in power generation and mining is forbidden by law. Earnings repatriation was greatly freed by a relaxation of foreign exchange controls in mid-1987. Tax treatment of foreign firms is essentially the same as that applied to local firms. In a major policy shift, the authorities decided in 1989 not to renew the pro-export "Statute for Investment Encouragement" when it expires in 1990. A new "Statute for Upgrading Industries" to provide incentives for investment in high technology and non-polluting industries is being drafted.

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4. Debt Management Policies

Taiwan is virtually debt-free. Large foreign exchange reserves and a continuing trade surplus have made it unnecessary for Taiwan to borrow foreign funds. At the end of 1989, its Central Bank had foreign exchange reserves of about $73 billion. External public debt stood at a mere $1.8 billion by the end of 1988. The debt service ratio was 1.6 percent for the year. Taiwan's only official connection to an international monetary agency is its membership in the Asian Development Bank.

5. Significant Barriers to U.S. Exports and Investment

Tariffs: While its efforts to date to reduce tariffs have been noticeable, Taiwan retains high tariffs on many items, especially in the agricultural sector. To protect agriculture, tariffs as high as 40 to 50 percent are levied on one-third of agricultural imports. To protect the domestic auto industry, tariffs on small passenger cars remain at 42.5 percent at present but are scheduled to go down to 30 percent by 1991. Taiwan's distribution network -- cartel like and inefficient -- has not shared all the benefits of lower tariffs with the consumers.

Import Licensing: By August 1989, Taiwan had removed the import permit requirement for 5,948 items, or 66 percent of the 8,957 items on the Harmonized System list, compared to 43 percent in 1988. However, other import restrictions remain, including import bans on 246 and licensing requirements on 2,763 items. The process to obtain import permits for pharmaceutical, cosmetics and some agricultural products remains complex.

Services Barriers

Banking: The amended banking bill of July 1989 has expanded the permissible scope of business for foreign banks to include savings and trust/investment services. But foreign banks cannot open more than two offices in Taiwan, and the second office must be in Kaohsiung (the first in Taipei). The NT dollar deposits foreign banks can absorb are restricted to a multiple of 12.5 times the working capital of their Taipei branch. There is also differential treatment between foreign banks and Taiwan's five largest domestic banks in the amount of foreign exchange liabilities they may maintain.

Insurance: Since market opening on January 1, 1986, U.S. insurance companies are the only foreign insurance companies allowed to enter the Taiwan market, at the rate of four a year: two life and two nonlife companies. The U.S. companies can operate the same range of business as domestic companies, but they cannot establish a branch network in Taiwan nor invest in real estate.

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Credit/Charge Cards: Since January 1, 1989, foreign charge/credit (debit) cards denominated in NT dollars can be issued in Taiwan, but the foreign card issuing companies, like their Taiwan counterparts, must take up membership in Taiwan's national credit card center (NCCC). At the moment, Taiwan law forbids holders of both domestic and foreign cards to borrow money on their credit/charge cards, a card service common in the United States.

Travel/Ticket Services: Foreigners are not permitted to establish travel agencies in Taiwan. China Airlines, a state-controlled airline, is the industry leader and sets ticket prices followed by other airlines. The prices are high.

Motion Pictures: After drastic cuts in the past, the entertainment taxes (a city/county tax) on non-Chinese language films were cut again in October 1989 from the 7.5 to 15 percent range to the 1 to 1.5 percent range. But these rates are still higher than those (0.5 to 1.0 percent) on Chinese language films. Imports of non-Chinese language films are limited to 8 prints and daily showings of such films are restricted to 4 showings per municipality (see Section 7).

Stock Exchange/Other Financial: Foreign firms are barred from membership on the Taiwan stock exchange. Foreigners cannot invest in the local stock market except via four closed-end mutual funds. Foreign ownership in a local securities firm is limited to 40 percent, with each foreign firm owning no more than 10 percent. In June 1989 the financial authorities announced that they would accept applications for three foreign securities firms to open branch offices in Taiwan.

Transportation: Taiwan's highway law forbids foreign companies to operate trucks on Taiwan's roads. Bilateral maritime talks in September 1989 concluded with Taiwan's promise to expedite the revision of the highway law to permit foreign carriers to operate intermodal trucking on Taiwan. Limited berth space in Keelung also forces foreign carriers to use the less desirable southern port of Kaohsiung. Harbor fee structure for both domestic and foreign carriers appears high.

Standards, Testing, Labeling, and Certification: Imported agricultural goods are routinely tested while local agricultural products usually are not. Stringent bacteriological standards are set for imported meats. Standards for imported feed corn and cereal corn are high. The authorities determine the purity of imported fruit juices using an amino nitrogen test, a purity standard almost unique in the world. Registration procedures for pharmaceutical imports are both complex and time consuming. Labelling requirements for imported beer, wine and cigarettes have been criticized as impractical and costly to implement. The Taiwan tobacco and wine monopoly bureau uses high taxes to maintain market share for domestic alcoholic beverages and cigarettes.

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Investment Barriers: In the past several years, Taiwan has removed many barriers to foreign investments, abolishing export performance and local content requirements (except in certain portions of the automotive and electronic industries), and liberalizing earnings and capital repatriation. The latest liberalization measures implemented in May 1989 opened to foreign investors all industries except agriculture, power generation, petroleum refinery, railroads, trucking, telecommunications and those related to national defense. Foreign ownership in some industries has limits, such as a maximum of 90 percent in leasing companies and 40 percent in securities firms. Firms with 45 percent or more foreign investment are free from nationalization for 20 years. In fact, no foreign invested firm has been nationalized in the past 40 years and no U.S. investor in Taiwan has filed an Overseas Private Investment Corporation (OPIC) insurance claim.

Government Procurement Practices: There are currently no countertrade requirements imposed on either public or private sector transactions. Official procurement is divided into domestic and overseas components. Procurement can be made by open tender, restricted tender or negotiation. Open tender bids are usually used to solicit foreign bids and require at least three bidders. Restricted tender may be limited to prequalified bidders but require at least two bidders. Special authorization for negotiated purchases is occasionally granted in cases where there is a sole supplier or where the need is urgent. Some bids are restricted to local suppliers. Local rules stipulate that all public enterprises and public administrative agencies procure locally if the goods and services can be manufactured in Taiwan, if acceptable substitutes are available locally, or if the price of local products is not more than five percent higher than the CIF import price plus tariffs and harbor taxes.

Customs Procedures: Customs clearance can be time consuming and costly. Importers have to obtain a large number of approval stamps on shipping and customs documents. many importers hire a local customs broker to expedite the process, and that adds to cost. Disputes over customs classification or valuation, delays in processing, and excessive zeal in prosecuting minor discrepancies in documentation are common complaints. For agricultural imports, customs officials often adjust upwards their value for tariff purposes. There are allegations of corruption among customs officials.

6. Export Subsidies Policy

Exports of rice and sugar are indirectly subsidized through guaranteed purchase prices higher than world prices. The farmer can sell one-half of his rice crop to the authorities at the guaranteed price and the other half on the open market. Rice exports are sourced from this official stock. Until the end of 1989, the American Institute in Taiwan and its counterpart had an agreement placing a ceiling on the level of rice that can be exported. Producers of fruit, poultry, and livestock receive assistance with packaging, storage, and shipping via marketing cooperatives and farm associations.

The tax rebate system designed to encourage exports by repaying import taxes on imported components of export products has gradually been phased out. By September 1989, about three quarters of 4,800 eligible import items had been removed from the rebate program. Harbor construction surcharges, reduced from 4 percent to 0.5 percent in August 1987, now apply to exports as well as imports. Export performance requirements for foreign investment ended in 1986 and low interest rate loans for exports were suspended. A 0.0625 percent tax levied on exports finances the activities of the official China External Trade Development Council (CETRA) which actively promotes Taiwan exports both with industry at home and potential buyers abroad.

7. Protection of U.S. Intellectual Property Rights

Taiwan is not a member of any of the principal intellectual property rights accords.

Taiwan's intellectual property rights regime has improved significantly since 1985 with revisions of the copyright, patent, and trademark laws. However, problems remain in the interpretation or scope of some of the new provisions, in enforcement, and in restrictions on certain rights, notably public performance rights for audio-visual works. AIT and CCNAA concluded an audio-visual works agreement in May 1989 and initialed a bilateral Copyright Agreement in July 1989.

These agreements, when embodied in Taiwan's laws, will strengthen intellectual property protection. While seeking additional bilateral agreements, AIT continues to encourage CCNAA to join commonly recognized international conventions on intellectual property protection. Taiwan was named to the Special 301 "Priority Watch List" of the 1988 Omnibus Trade and Competitiveness Act in May and downgraded to the "Watch List" in November, acknowledging the trend toward improvement, but reflecting continued concern.

Copyyrights: Under the AIT/CCNAA bilateral copyright agreement initialled in July 1989, Taiwan agreed to (1) extend the term of copyright protection to the life time of the author plus 50 years, (2) extend retroactive protection for works created after 1965 to 20 years, and (3) protect the translation rights of U.S. works. However, the Agreement will not be signed until Taiwan embodies it in the revised copyright law expected to be submitted to the legislature in the fall session of 1990. In the meantime, "fast track" amendments to the law to protect public performance rights are slated for legislative consideration early in 1990.

Copyright Enforcement: More needs to be done to facilitate investigations, raids, and prosecutions. Taiwan authorities would like to expand the intellectual property-related police units and improve their training. Consistent judgments through Taiwan's court system is also important. If the Supreme Court should decide to uphold a lower court verdict against the local copyright infringer in a case involving a well-know reference book publisher (now on appeal), the decision could deter infringement in the future.

MTV issues: Since Taiwan's Government Information Office launched enforcement actions against illegal videotape viewing studios (MTVs) in early 1989, the number of such studios had fallen from 649 to 184 by the end of 1989. Through September 1989, the Information Office, in conjunction with the local police, conducted 4,197 raids on MTV studios and seized over 185,000 illegal videotapes. Although progress has been made, legalization of all MTV studios by early 1990 and additional actions against videotape pirating factories would demonstrate continued efforts at greater effectiveness in enforcement.

Patents: Taiwan's National Bureau of Standards is drafting new revisions to the patent law, slated for submission to the Ministry of Economic Affairs (MOEA) in December 1989. During recent talks with AIT, CCNAA agreed to stop exempting imports from the reversal of burden of proof for process patent infringement cases. This change will be incorporated in the December draft revisions. AIT and CCNAA continue dialogue on compulsory licensing requirements.

Trademarks: Trademark law revisions, defining "the responsible person" in cases involving the seizure of counterfeit goods, are likely to be passed by the Legislative Yuan in early 1990. This definition should facilitate prosecution, but more work needs to be done on codifying discovery and evidentiary procedures used in trademark infringement cases. Infringement remains a widespread problem, despite rigorous prosecution against trademark violations in 1989.

Micro-organisms: AIT and CCNAA are discussing a draft agreement extending patent protection to micro-organisms. This agreement, based on the Budapest Convention, may be concluded in 1990.

Semi-conductors: At the end of 1989, Taiwan's Ministry of Economic Affairs completed its draft of a semi-conductor chip act similar to the U.S. semi-conductor chip protection law. The draft act proposes to protect the layout of semiconductor chips for 10 years. Protection would be extended to other countries reciprocally or upon the first publication of the design in Taiwan. The chip designer would enjoy the rights of importation, distribution and reproduction. Such rights would terminate after the first sale.

Fair Trade Law: This bill has been pending in the Legislature for six years; it was recently placed on a priority list for passage, perhaps in 1990. The draft law proposes to prohibit deceptive advertising, define unfair competition, and protect trade dress. However, the draft's very broad regulation of pyramiding schemes remains a concern.

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New Technologies: The pirating of computer hardware and software, both in professional and corporate circles and among home users, is still a serious problem on Taiwan. But the authorities have been willing to punish offenders. Biotechnology is very new to Taiwan and there are as yet no known infringements in this area. Telecommunications piracy, increasingly common, is exacerbated by the fact that Taiwan is a major manufacturer of satellite equipment.

Infringement Costs: The costs of intellectual property infringements to U.S. industries are difficult to estimate. However, a 1986 International Trade Commission survey reported that U.S. firms estimated some $750 million in worldwide sales are lost every year as a result of Taiwan infringement in the areas of publishing, computers, and electronics.

8. Worker Rights *

a. Right of Association

Taiwan's Labor Union Law permits all workers, except civil servants, educational personnel, and munitions industry workers, to organize unions as long as they obtain approval from the central authorities. Circumventing this control, a number of quasi-unions known as Friendship Associations emerged after martial law was lifted in mid-1987. The Law Governing Civic Organizations during a National Emergency, amended in January 1989, requires all civic organizations (including quasi-unions) to obtain official approval, with violation punishable by a two-year maximum jail sentence. Although no quasi-union has been penalized, this provision remains a deterrent to free association.

b. The Right to Organize and Bargain Collectively

Only approved labor organizations may organize and bargain collectively under the Labor Union Law, the Collective Agreement Law, and the Law Governing the Handling of Labor Disputes (amended June 1988). The right to strike is very circumscribed, although many illegal ones have taken place. The authorities have generally been reluctant to act against striking workers, who have gained most of their objectives.

c. Prohibition of Forced or Compulsory Labor

Taiwan's Labor Standards Law of August 1984 prohibits forced or compulsory labor, with violations punishable by a maximum five-year jail sentence. However, it is widely known that many young women and girls are forced into prostitution. The authorities have done little to protect these victims.

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d. Minimum Age of Employment of Children

Article 45 of the Labor Standards Law forbids children under 15 to work unless they have graduated from junior high school or local authorities certify that their physical and mental health will not be damaged. Statistics indicate that very few firms hire underage children illegally.

e. Acceptable Conditions of Work

The Law defines general conditions of work, such as the basic (minimum) wage, work hours, overtime pay, and severance and retirement benefits. But labor shortage here has encouraged employers to improve working conditions to attract and retain workers. The current minimum wage is NT$8,820/month ($343), but prevailing wages are much higher.

f. Rights in Sectors with U.S. Investment

U.S. firms or joint ventures here generally abide by Taiwan's labor regulations and provide model work conditions in wages and other items. Worker rights do not vary significantly by industrial sector but conditions of work do. U.S. investment in Taiwan is concentrated in the electronic and chemical industries whose workers enjoy better vocational training and fringe benefits than those in other sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		1,151
Food & Kindred Products	23	
Chemicals & Allied Products	392	
Metals, Primary & Fabricated	24	
Machinery, except Electrical	230	
Electric & Electronic Equipment	382	
Transportation Equipment	63	
Other Manufacturing	30	
Wholesale Trade		172
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Taiwan country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions of U.S. dollars)

	1987	1988	1989 1/
Income, Production, and Employment			
GNP (current prices)	47,119	57,001 2/	64,532
GNP per capita (current prices)	879	1,045 2/	1,164
GDP by sector (pct)			
Agriculture	16.1	16.9	n/a
Manufacturing	23.9	24.4	n/a
Wholesale/retail trade	15.6	15.8	n/a
Services	13.9	13.4	n/a
GNP constant (1972) pcs	15,427	17,111	20,849
Gross fixed capital formation (current prices)	9,039	11,299	n/a
Gross national investment rate (pct)	25.8	27.5	n/a
Gross national savings rate (pct)	22.9	26.6	n/a
Labor force (000s)	28,940	29,900	30,850
Unemployment rate (pct)	6.8	5.8	5.8
Money and Prices			
Money supply (M1)	5,150	5,876	7,137
Commercial bank rate (pct)	11.25	11.50	13.00
Producer prices (1976=100)	178.4	193.0	206.5
Consumer prices (1976=100)	202.6	210.4	222.0
Exchange rate (baht/$)	25.72	25.29	25.80
Balance of Payments and Trade			
Total exports FOB	11,663	15,970	19,884
Exports to U.S.	2,168	3,200	3,973
Total imports CIF	12,999	20,305	24,806
Imports from U.S.	1,314	1,618	2,421
Balance of trade	-1,336	-4,335	-4,922
Earnings from tourism	1,946	3,121	3,876
Remittances of overseas workers	840	927	n/a
Current account balance	-363	-1,702	-2,713
Net capital movements	821	2,782	n/a
Overall balance of payments	707	1,602	3,295
Net international reserves	5,372	6,430	9,800
External public debt	12,957	12,599	n/a
Annual external debt svc	2,658	2,758	n/a
Debt service ratio (pct)	17.2	12.9	13.0

1/ 1989 figures, where available, reflect estimates as of November 20, 1989.
2/ estimate

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1. General Policy Framework

Royal Thai Government economic development policies are based on a competitive, export-oriented, free market philosophy. Exports have been and will continue to be the engine for Thailand's rapid growth. The success of these policies is evidenced by Thailand's real GDP growth rate, which was 10.98 percent in 1988 and is expected to reach 10 percent in 1989. Since overcoming Thailand's serious fiscal and trade imbalances of the mid-1980s, the Royal Thai Government has pursued a policy of encouraging diversification toward export-oriented light industries and increased reliance on tourism earnings. The Government welcomes long-term foreign investment and provides promotional assistance through the Board of Investment. In recent years the majority of the projects approved by the Board of Investment have involved the production of goods for export.

The fiscal performance of Thailand's central government showed marked improvement in both Thai fiscal years (FY) 1988 and 1989 (the Thai fiscal year is the twelve-month period ending September 30). As a result of a cautious policy on expenditures and unexpectedly strong growth in revenue collections, the national (central) government's budget shifted from a cash deficit of 2.6 percent of GDP in FY1987 to a cash surplus of 0.4 percent of GDP in FY1988 and an estimated surplus of 2.5 percent of GDP in FY1989. A higher level of economic activity accounted for much of the improvement in revenue collections as both business tax revenues and collections of import duties grew strongly. Better tax administration also played a role. The Government budget proposal for FY1990 projects a deficit in the $1 billion range, although actual results may be much more favorable.

From 1987 until late in 1989 the Bank of Thailand officially promoted a "more relaxed and flexible" monetary policy as part of a government effort to promote higher economic growth. The Bank permitted the broad money supply (M2) to grow by some 18.2 percent in 1988. Liquidity began to tighten during late 1987, as loan demand increased and many depositors shifted their assets to the securities exchange of Thailand. Liquidity further tightened in 1988 as rapid economic growth and strong investment growth increased loan demand, putting upward pressure on interest rates.

During 1989, however, there were substantial private capital inflows, which helped ease the liquidity situation, and growth of M2 accelerated to the 20 percent range. In late 1989, the Bank of Thailand began to tighten monetary policy.

2. Exchange Rate Policies

Thailand devalued the baht by 14.8 percent in November 1984. Since then the value of the baht has been determined according to a basket of the currencies of Thailand's major trading partners. Although the composition of the basket is a closely guarded secret, the U.S. dollar probably represents over 80 percent of the value of the basket. Global currency realignment since 1985 has tended to make U.S. exports to Thailand more price competitive. The Exchange Equalization Fund (EEF), chaired by the Deputy Governor of the Bank of Thailand, determines the value of the baht each working day. There is no legal parallel market in Thailand.

While Thailand has an extensive system of exchange controls established in law, the system is implemented flexibly in practice. The remittance of investment funds into Thailand is free from any restriction. Repatriation of such funds and the returns therefrom requires the approval of the Bank of Thailand's exchange control officer. Applications for repatriation that contain evidence that the applicants registered their investment funds at the time such funds were remitted into Thailand are processed without undue delay. Businesses receiving investment incentives from the Government are given guarantees regarding the repatriation of funds. In late 1989, the Bank of Thailand relaxed its foreign exchange controls to permit freer inflows and outflows of funds.

3. Structural Policies

Although the nation's trade deficit continues to expand, the overall balance of payments remains in surplus due to growing tourism earnings and large inflows of foreign investment. This healthy balance of payments situation has allowed the Royal Thai Government to liberalize somewhat its import regime and avoid new restrictions on imports for balance of payments purposes. In general the Government's principal economic policies in the early 1990s will be directed towards managing the current expansion, controlling inflation, and geographically directing business activity with a view to distributing the benefits of increased affluence to a wider segment of Thai society.

With the exception of minor reductions in income tax rates, there have been few changes to the tax code in recent years. This may change if, as expected, the Government implements a proposal for a value added tax (VAT) in late 1990. Under the proposal, the present complicated business tax system, which has more than 10 rates ranging from 1.5 percent to 40 percent, would be eliminated. The VAT would have a uniform rate and require strict accounting standards. The Thai Government has indicated its intention to make the conversion to VAT revenue neutral.

Thai financial authorities have been generally successful in improving the soundness of Thailand's commercial banking system.

Successive Thai governments during the 1980s have also articulated support for the privatization of selected activities undertaken by state enterprises. In a few cases, this has included the outright sale of small state enterprises, but more frequently "privatization" has meant the provision of services by private vendors under government contracts or multi-year concessions. Currently, the Thai Government is examining actively the means for expanding the role of the private sector in the provision of public services, including infrastructure such as toll roads, electric power, rail and air transport, and port management services. The privatization of new activities poses fewer political problems for the Government than reform of existing state firms in the face of stiff opposition from state enterprise labor and management.

4. Debt Management Policies

Thailand has followed prudent external debt management policies in recent years, including fixing an overall ceiling on public sector external borrowing, successfully prepaying a portion of the country's debt that was contracted at high interest rates, and significant switching of debt obligations among currencies. The stock of public sector external debt declined to $12.6 billion at the end of 1988, equivalent to about 23 percent of GDP at the end of that year. With the addition of private sector debt, the total stock of debt ($17.9 billion) would amount to nearly one-third of GDP. Total debt service in 1988 was close to $2.8 billion. Booming Thai exports and declining international interest rates helped push the debt service ratio down from 22 percent in 1985 to a projected 13 percent for 1989.

Thailand has excellent relations with its creditors. During 1989, two U.S. bond rating firms gave high marks to Thailand's economic management and prospects. Private financial institutions, very upbeat about Thailand's economic management and future prospects, are eager to offer loans and financial services. Thailand has not had an International Monetary Fund (IMF) program in place since the end of 1986. In recent years Thailand has de-emphasized borrowing from the multilateral development banks, partly because of the extensive project preparation and relatively higher interest rates involved. At the same time, Japan has remained a significant provider of concessional assistance.

There is growing public recognition that increasingly inadequate infrastructure in the Bangkok area could become a major bottleneck to sustained economic growth and development. In response, in 1989 Thailand raised its ceiling on annual public sector external borrowing by 20 percent to $1.2 billion and, as previously noted, sought to investigate additional opportunities for equity capital involvement in the country's infrastructure development.

5. Significant Barriers to U.S. Exports and Investment

Arbitrary customs valuation procedures sometimes constitute a serious import barrier. Thai Customs keeps a record of the highest price of any product imported from any given country from invoices of previous shipments. That price can then be used as the "check price" for assessing tariffs on subsequent shipments of similar products from the same country. Often Customs will disregard actual invoice value in favor of the check price. For products shipped from other than the country of origin, Customs reserves the option of using the check price of either the country of origin or the country of shipment, whichever price is higher. These rules are applied to all nations.

In the area of standards, food and pharmaceutical product importers are required to apply for import licenses from the Thai Food and Drug Administration (FDA). Importers indicate this licensing process poses an important barrier equal to or larger than the high duties assessed on food products because of its cost, duration, and demands for proprietary information. The cost of applying for a license is baht 15,000 (about $580) per item. Products imported in bulk require laboratory analysis at a cost of baht 1,000 to 3,000 per item. Products imported in sealed containers (consumer-ready pack) require laboratory analysis at a cost of baht 5,000 per item. Some food items must be registered as "controlled food items" at an additional cost of baht 5,000. Taken together, the importer must pay anywhere from baht 16,000 to 25,000 per item. The entire registration process requires at least three months and can take up to a year to complete. All items must be accompanied by a detailed list of ingredients and a description of the manufacturing process. Some U.S. suppliers have declined to export to Thailand rather than to provide the proprietary information requested.

Thai Ministry of Commerce licenses must be obtained for about 12 import items including some foods, raw materials, and industrial products. In general, items requiring import licensing may be divided into three categories: goods whose import is restricted through high duties to protect local industries; goods whose purchase is subject to a requirement for concurrent purchase of similar, domestically produced goods; and goods whose import is controlled for health, security or other reasons.

Various agricultural items are subject to import licensing requirements. Soybean meal imports are generally restricted to around 200,000 metric tons annually. In addition, importers are required to buy a certain quantity of domestic meal for every ton of imported meal. Soybean imports are subjected to even more restricted licensing. Only 40,000 tons of soybeans have been imported in the last two years. However, Thailand's Council of Economic Ministers on December 11, 1989, decided to liberalize the import of soybean meal, though the specific modalities remain to be worked out. Other agricultural products subjected to import licensing include powdered milk, bakery items, fresh citrus fruit, single-strength fruit juices, fresh potatoes, sugar confectionary, and coffee.

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Thailand bans cigarette imports. A state monopoly controls the domestic Thai cigarette market. U.S. brand cigarettes cannot be imported legally into Thailand, although smuggled U.S. brands are widely available in Bangkok and other large cities. These, and other related practices, are the subject of an investigation by the United States mandated by Section 301 of the 1988 Omnibus Trade and Competitiveness Act to be completed by November 1990.

Largely by restricting foreign bank entry, branching and acquisition of Thai banks, Thai authorities limit all foreign banks to a very small share of the total Thai banking market. That share comprised 4.9 percent of total commercial banking assets in 1988. Foreign banks are limited to a 25 percent participation in Thai banks. Foreign branches (except for certain grandfathered ones) are legally precluded from establishing subbranches in Thailand. Offsite automatic teller machines (ATMs) are considered equivalent to branches so foreign banks are precluded from joining domestic Thai bank ATM systems or opening their own ATM systems. However, Thai authorities regularly approve representative offices of reputable foreign banks. During 1989, the Government discussed with various foreign commercial banks the conditions under which such institutions could open branches in Thailand.

Thai regulations limit foreign equity in new local insurance firms to 49 percent or less. This denies new U.S. property/casualty and life insurers access to the local market on terms equal to local insurers. A long established U.S. firm, however, controls a major share of the Thai life insurance market. In almost all cases state-owned enterprises are insured with Thai companies. Insurance companies are faced with discriminatory capitalization requirements. However, Thai insurance companies frequently function largely as agents. Only rarely do they retain risk; they commonly sell their portfolios on the international reinsurance market, where Thai risk can be easily added to the portfolios of foreign insurance companies.

The Thais announced their intention to terminate the bilateral Civil Aviation Agrement with the United States as of October 31, 1990, but continue to fulfill their obligations under the Agreement, which is quite liberal. Negotiations continue in order to resolve disagreement regarding computer reservation systems -- the only item in dispute -- and rescind the notice of termination.

6. Export Subsidies

Thailand maintains several programs which benefit manufactured products or processed agricultural products and may constitute export subsidies. These programs include: preferential financing for exporters in the form of packing credits; tax certificates for rebates of taxes and import duties on inputs into exported products; an export promotion fund; and electricity discounts for exporters.

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7. Protection of U.S. Intellectual Property

Thailand is a party to the Berne and Universal Copyright Conventions.

Improved protection in Thailand for U.S. copyright, patent, and trademark holders has become one of the most prominent trade issues between the United States and Thailand. As part of the U.S. Government's global efforts to ensure adequate and effective protection, the United States has been involved in a continual exchange of views with the Royal Thai Government on these issues. Thailand has a body of law dating back many years that provides intellectual property protection. However, there are complaints about the coverage and about enforcement efforts. In January 1989, pursuant to petitions filed by U.S. industry, the U.S. government removed U.S. Generalized System of Preferences (GSP) competitive need waivers and denied Thai requests for other waivers because of inadequate protection of U.S. intellectual property.

U.S. accession to the Berne Convention was the mechanism by which Thailand fulfilled its commitment to protect U.S. copyrighted works under a series of bilateral agreements going back more than 60 years. The Thai Government has also provided assurances that "preexisting" U.S. works still under copyright protection in the United States will now be protected under Thai law. Thailand's copyright law does not provide explicit protection for computer software. However, an advisory opinion in 1984 by the highly respected Juridical Council stated that software was protected by the Thai copyright law. The Governments of Thailand and the United States have stated a willingness to await a Thai court test of the Juridical Council's advisory opinion on computer software.

Thailand's current trademark law does not protect service, certification, and well-known marks. Penalties for infringement are also considered to be too low. Thailand has indicated it will address these concerns by seeking enactment of pending amendments to its trademark law in the next session of Parliament. Enforcement remains a problem, although industry sources in Bangkok believe there has been some improvement in the willingness of Thai authorities to respond to complaints of trademark infringement. Import and local sales of counterfeit goods also continue to erode the value of trademark protection available under Thai law.

Thailand's patent law, inter alia, denies product patent protection for food and beverages, pharmaceuticals and pharmaceutical ingredients, and agricultural machinery. Other deficiencies include an insufficient term, overly broad compulsory licensing provisions, and a requirement that the patent holder work the invention in Thailand to avoid compulsory licensing or patent cancellation.

Thailand has accepted the principle of patent law reform and has specifically stated that protection will be sought for pharmaceutical products when amendments to strengthen the present law are submitted to Thai Parliament. Thailand has also pledged to meet other U.S. concerns. In late 1989, the Royal Thai Government constituted an intellectual property committee chaired by the Commerce Ministry. This committee is charged, inter alia, with drafting patent law amendments. The timing of patent law reform remains an issue for close and continuing bilateral consultations.

8. Worker Rights *

a. The Right of Association

Thailand's 1975 Labor Relations Act included recognition of the right of association. Thai workers have the right to form and join associations of their own choosing, decide on their constitutions and rules, and formulate policies without outside interference. They are protected against discrimination, dissolution, suspension, or termination for their activities. They have the right to form associations with international labor organizations of their own choosing.

b. The Right to Organize and Bargain Collectively

Most Thai workers also have the right under the 1975 Act to organize unions or employee associations of their own choosing, and to bargain collectively over wages, benefits, and working conditions. There are currently over 500 registered unions. Civil servants and employees of two state enterprises may not form or join unions and are limited to membership in employee associations. The right to strike is enjoyed by all workers except those employed by the civil service, state enterprises, and in essential public services. Collective bargaining in Thailand usually deals only with wages, and is seldom conducted on an industry-wide basis. The Thai Labor Court Act of 1981 protects employees against "unfair" dismissal. In October 1989, the Thai Interior Ministry issued a notification limiting the employment of Thai workers on a temporary contract basis, a device used widely to restrict union activities in Thai workplaces.

c. Prohibition of Forced of Compulsory Labor

The Thai Constitution prohibits forced or compulsory labor except in national emergency, wartime, or under martial law.

d. Minimum Age for Employment of Children

The minimum working age was raised in January 1990 from 12 to 13. Through age 15, prior permission of the Department of Labor is required and employment is restricted to "light work" in safe industries. Night work is prohibited and there are other restrictions for employing children aged 15-18 years. Thailand is considering increasing the minimum age gradually to 15 years, in concert with an increase in the level of compulsory education. Meanwhile, the Government's priority is enhancing enforcement of existing child labor protection laws and regulations.

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e. Acceptable Conditions of Work

Working conditions vary widely. The Thai workweek is 48 hours or less for most industries, except for commercial activities, where it is 54 hours. Transportation workers are restricted to a maximum 8-hour workday. International health and safety standards prevail in medium and large industries, including most multinational firms, and 8-hour workdays and wages in excess of the nationally-mandated minimum are standard. Outside this formal sector and in rural areas, however, standards can deteriorate significantly. The inadequacy of Thailand's Labor Inspectorate prevents the Government from investigating and pursuing all potential violations of labor laws and regulations.

f. Rights in Sectors with U.S. Investment

Substantial U.S. capital is invested in several sectors of the economy, including petroleum (production, refining, and marketing), electronic components assembly, and consumer products. Labor conditions in these sectors generally exceed the national norm by a wide margin in all respects, including the extent of unionization, the level of wages and benefits, and the degree of attention paid to health and safety issues.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		596
Total Manufacturing		326
Food & Kindred Products	9	
Chemicals & Allied Products	47	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	215	
Transportation Equipment	0	
Other Manufacturing	29	
Wholesale Trade		64
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		986

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Thailand country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

EUROPEAN COMMUNITIES

1. General Policy Framework

The European Communities (EC) exercise supranational authority over some aspects of economic policy of the 12 member states (France, FRG, Belgium, Netherlands, Luxembourg, Italy, U.K., Ireland, Denmark, Greece, Spain and Portugal). The EC has exclusive competence over non-military trade and agricultural policy, including tariffs, multilateral negotiations, and customs practices. It also has competence in fisheries and nuclear energy and increasingly in environment, transportation, telecommunications, and research and development. The EC has a limited but growing ability to influence member state financial and investment policies. EC member states retain independent authority for macro-economic policies.

The EC is implementing its 1992 program designed to create a single market among the twelve member states in which all goods, services, people and capital can move without restriction across national borders. The EC's stated policy is to accomplish this through liberalizing measures which will open the European market through deregulation and reduction of barriers. As the EC generally has followed market principles in developing the 1992 program, the single market should offer U.S. exporters and companies greater and easier access to many sectors, provided it is implemented in an open and market-oriented way.

Over half of the prescribed elements of the single market program are already adopted, and more than 90 percent of the directives have been tabled. At this early stage of implementation, it appears that the overall trend is towards a more liberal trading regime, although some individual EC decisions are discriminatory or potentially trade discouraging or distorting.

2. Exchange Rate Policies

The EC has no institutional role in monetary or exchange rate policies of its member states. The then-nine EC member states established the European Monetary System (EMS) in 1979 in an effort to reduce currency volatility. It includes an Exchange Rate Mechanism (ERM), the European Monetary Cooperation Fund into which the member states central banks have paid 20% of their gold and foreign exchange reserves, and the European Currency Unit (ECU). The ECU is not a currency but is a weighted basket of the eleven EC national currencies (Belgium and Luxembourg have a joint currency). There are no physical ECU notes or coins (except for some gold coins issued by Belgium), but it serves as the unit of account for the EC. Bank accounts in some countries can be denominated in ECUs, and a market in ECU-denominated bonds has developed. All twelve EC member states are members of the EMS.

The Exchange Rate Mechanism (ERM) is a commitment among the participating states to maintain the exchange rates of their currencies with the ECU and with every other currency within fixed narrow bands (plus or minus 2.25 percent of the central par values for most currencies). When two currencies diverge to their limits, the concerned countries are required to take corrective action. There have been several realignments of exchange rates in the ERM since 1979, the most recent in January 1990. All EC members participate in the ERM except the U.K., Portugal and Greece. The United Kingdom is scheduled to go to the ERM in July 1990. In practice the anchor currency for the ERM is the Deutschemark, which moves freely against the U.S. dollar in the context of G-7 policy coordination.

Over the past year, interest in and movement towards European economic and monetary union (EMU) has intensified. The Delors Report laid out an open-ended three-stage process for achieving eventual monetary union, possibly culminating in a European System of Central Banks and a single common currency. The EC member states agreed in June 1989, to begin implementing Stage I of the Delors Report on July 1, 1990, with no end date for completion. Stage I includes the abolition of remaining barriers to intra-EC capital flows, closer coordination of economic policy, completion of the 1992 Single Market project, and full ERM membership for the U.K., Greece and Portugal. The timing and content of Stages II and III of the Delors Report, calling inter alia for a central bank and a common currency, are uncertain and would require treaty changes. By the end of 1990, the EC will convene an intergovernmental conference to discuss future steps and to recommend amendments to the EC treaties necessary to implement the next steps of EMU. This would require unanimous agreement.

3. Structural Policies

Tax Policies: The EC's role in tax policy is limited to efforts to encourage harmonization of indirect tax rates in order to eliminate border controls as part of the EC 1992 program; it has yet to develop a strategy at the Community level to influence the macro-economic policies of the member states. Efforts at achieving approximation of value added tax (VAT) rates have proven difficult. All tax directives require unanimous agreement. For example, in late October 1989 the European Commission adopted revised proposals for the harmonization of excise duties within the Community. Instead of a fixed harmonized rate as originally proposed, the Commission proposed to set minimum rates for tobacco, alcohol and gasoline. Narrow bands are recommended for excise duties on diesel, and domestic and industrial fuel. These proposals, like those which were put before it, are designed to minimize distortions.

Tariffs: In August, 1989 the Commission adopted new guidelines governing the administration of the Community's system for approving temporary duty suspensions, e.g., on military goods. Duty suspensions are autonomous measures taken by the Community to waive, fully or in part, the application of the Community's import duties. The purpose of the guidelines is to regularize and rationalize the duty suspension process. Although there has been little experience with the new guidelines to date, in general it appears that they will make it more difficult for U.S. exporters to benefit from duty suspensions. A major reason is that the new guidelines provide that, in general, duty suspensions will not be granted where there is an "exclusivity arrangement" between the exporter and importer. Such arrangements are not unusual for products sold between related parties, or for products covered by intellectual property rights (for example, patented products).

4. Debt Management Policies

not applicable

5. Significant Barriers to U.S. Exports

Services Barriers: In December 1989, the Community adopted the Second Banking Directive, which defines reciprocity in a way which approximates a national treatment standard (i.e., reciprocal national treatment). The approved directive no longer calls for an automatic suspension of applications pending a reciprocity review. Existing foreign subsidiaries will be "grandfathered."

Directives in the securities services and insurance areas are further behind banking in the legislative process. The EC Council has pledged, but did not guarantee to apply the same reciprocity provisions contained in the Second Banking Directive to the pending insurance directive. Informally, EC officials have promised to do the same with the investment directives.

Standards, Testing, Labeling, and Certification: Overall there are many unanswered questions on how the EC's "new approach" to standardization, certification and testing will affect U.S. exports. Greater uniformity of standards and technical requirements across member states will undoubtedly reduce costs of selling in Europe. Although there have been some improvements in transparency of standards setting, U.S. manufacturers are not able to participate formally in CEN and CENELEC, the two major European standards bodies, whose standards will be afforded a privileged status under EC directives. For products covered by EC directives, there is concern by U.S. manufacturers and laboratories that tests generated in the U.S. may not be acceptable to demonstrate conformance to the essential requirements. It could be difficult for U.S. manufacturers producing to current non-EC standards to demonstrate through third-party testing that their products conform to the directives. Requirements for quality assurance systems on the factory floor as part of a conformity assessment procedure for certain products could prove to be overly burdensome for U.S. manufacturers. The U.S. Government continues a broad dialogue with the Commission to address these concerns.

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Common Agricultural Policy (CAP): A founding principle of the CAP--Community preference--ensures that internally produced agricultural products have a competitive advantage vis-a-vis like products imported into the Community. Other CAPmechanisms allow high priced EC products to compete successfully in third-country markets. Variable import levies, equaling the difference between higher EC support prices and the lowest price of competing imports, plus transportation and handling costs, guarantee that imported products are priced at least as high as, and usually above, internally produced products. Import levies apply to most agricultural commodities--cereals and rice, milk and milk products, beef and veal, sugar and olive oil. Exceptional commodities not subject to import levies include soybeans and vegetable protein meals; import duties for these items are bound at zero. High domestic subsidies for various crops have led to great increases in production and a consequent decrease in imports. In a recent ruling, a GATT dispute settlement panel found that such subsidies for oilseeds have impaired the EC's zero tariff binding for soybeans. The EC has agreed to comply with the GATT panel's decision within the context of the Uruguay Round.

On the export side, EC exporters of agricultural commodities receive an export subsidy (refund or restitution) to guarantee they can export successfully and hence sell any surplus EC production on the world market, seriously undercutting the U.S. in some third markets.

Investment Barriers: Generally EC legislation supports the concept of freedom of establishment. There are no EC rules placing limitations on foreign ownership, foreign personnel or repatriation of profits. The EC's merger control regulation was adopted in late 1989. The merger control regulation only applies to very large mergers (approximately $6 billion or more). It contains a reciprocity provision, but there are no discriminatory powers attached to it. Most authority for inward investment will continue to reside at the member state national level.

Government Procurement: The Commission has proposed directives to open up government procurement in four hitherto excluded areas--telecommunications, water, energy and transport. If passed as currently drafted, the directives would establish a mandatory 3 percent preference for bids containing 50 percent EC content and would deny the right to open and transparent procedures to non EC bids. In addition to entities which are traditional governmental agencies, this directive would also cover some private entities, such as British Telecom. While entities in these excluded sectors are not currently covered by the GATT Procurement Code, the U.S. Government is pressing the EC to extend the benefits to the U.S. The proposals do allow for extending the benefits to third countries.

Rules of Origin: Recent EC decisions concerning rules of origin in the case of integrated circuits and in antidumping circumvention cases have caused concern on the part of U.S.

exporters. These decisions have contributed to a perception that the EC is trying to encourage use of EC components and products by manufacturers, thus inducing American companies to set up operations in Europe to compete, especially in semiconductors. The Commission has publicly denied that there is such a Community policy and has been working with the U.S. Administration to try to resolve outstanding technical issues relating to rules of origin. The United States and the EC have agreed to negotiate an agreement on rules of origin in the current GATT round.

6. Export Subsidies Policies

As noted above, an integral element of the Common Agricultural Policy is a system of export subsidies that effectively lowers the artificially high EC internal price to the world price, enabling the EC to sell surplus production on world markets. Export restitutions are used for numerous products, most commonly for wheat.

7. Protection of U.S. Intellectual Property

In general, the EC has taken a pragmatic approach to intellectual property protection, focusing more on the commercial implications of intellectual property rights protection than the individual member states have. In addition to passing a directive to harmonize existing national trademark laws, the EC has been trying for years to create a Community Trademark as well as a Community Patent. The EC Commission has also taken a strong position on enforcement of rights, recently promulgating a directive on border enforcement against the importation of counterfeits. The EC is considering expanding these measures to include copyrights.

In the first half of 1990, the EC Council is expected to pass a directive which will harmonize copyright protection for computer programs. Within a year, the Council intends to adopt a directive that will allow patent protection for biotechnology products. The Commission is in the process of drafting legislation that would grant extensions of patent protection to pharmaceutical products that lose effective patent term while awaiting marketing approvals.

The United States is supportive of EC efforts to increase intellectual property protection and enforcement and raise it to common level throughout the Community. A single Community patent and trademark system would substantially reduce costs and marketing delays for U.S. products while improving the protection of intellectual property. While we support EC initiatives in biotechnology patentability, we would like to see the current EC proposal broadened to include plant and animal subject matter.

The EC supports a comprehensive GATT agreement on intellectual property rights. U.S. and EC positions in the Uruguay Round negotiations are generally in agreement as to the need for strengthened intellectual property protection and enforcement. The EC Commission has been seeking U.S. views with respect to intellectual property issues as it formulates directives regarding biotechnology and computer software and is engaged in an informal bilateral dialogue with the United States on these issues.

8. Worker Rights

Worker rights are discussed in the individual country sections of the report. The aggregate extent of U.S. investment in the goods producing sectors for the 12 member states is shown in the table below.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		15,695
Total Manufacturing		65,431
Food & Kindred Products	7,364	
Chemicals & Allied Products	14,409	
Metals, Primary & Fabricated	2,408	
Machinery, except Electrical	15,798	
Electric & Electronic Equipment	3,079	
Transportation Equipment	7,431	
Other Manufacturing	14,943	
Wholesale Trade		12,774
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		93,900

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

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Key Economic Indicators

(Billions of Austrian schillings (AS) unless stated)

	1987	1988	1989 (est)
Income, Production, and Employment			
Real GDP (1983 prices)	1,285.9	1,339.9	1,303.0
GDP by sector			
Agriculture	45.3	47.1	47.0
Manufacturing/mining	351.7	371.4	393.0
Energy and water	46.9	47.5	48.0
Construction	89.2	93.4	96.0
Trade/hotels/restaurants	214.1	226.5	239.6
Transportation/Communication	78.6	81.7	85.0
Banks/insurance/real estate/ legal services	186.0	194.0	200.0
Other services	55.0	57.1	58.0
Public services	173.2	174.4	175.0
Import duties and VAT less imputed bank services	45.9	46.8	49.0
Real GDP growth rate (pct)	1.9	4.3	4.0
Real per capita income ($)	15,468.0	16,705.0	16,303.0
Size of labor force (000s)	2,949.8	2,969.1	3,003.0
Unemployment rate (pct)	5.6	5.3	4.9
Money and Prices			
Money supply (M1)	242.3	261.3	n/a
Commercial interest rates	n/a	n/a	n/a
Savings rate (pct dispos income)	12.3	12.6	14.5
Investment rate (in pct of GDP)	23.1	23.5	24.3
Consumer price index (pct)	1.4	2.0	2.7
Wholesale price index (pct)	-2.0	-0.2	2.5
Exchange rate (AS/US (avg)	12.64	12.35	13.50
Balance of Payments and Trade			
Total exports FOB	342.4	383.2	436.4
Exports to U.S.	12.2	13.5	14.0
Total imports CIF	411.9	451.4	525.8
Imports from U.S.	14.2	15.3	18.9
Aid from U.S.	n/a	n/a	n/a
Aid from other countries	n/a	n/a	n/a
External public debt	124.7	130.8	132.3
Annual debt serv paym'ts (paid)	18.7	19.5	15.0
Gold and forex reserves	123.4	132.8	n/a
Balance of payments	-2.7	-6.4	-4.1

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1. General Policy Framework

Austria, a member of the European Free Trade Association (EFTA) and the Organization for Economic Cooperation and Development (OECD), has a free-market economy albeit one with a sizeable state sector. The grand coalition government, consisting of the Socialist (SPO) and Conservative (OVP) parties, has followed pragmatic policies to reform and invigorate the economy since coming into office in 1987. The Government has begun to cut the federal budget deficit and reorganize the state-owned industries. The Government has also pursued deregulation and related policies, to make Austrian firms more innovative and internationally competitive, particularly in light of the plans of neighboring EC countries for 1992. Leaders of both main parties are determined to reduce subsidies to state-owned industries which account for over 18 percent of Austria's industrial output and 16.5 percent of industrial employment. The economy is enjoying the benefits of a recent reform of the tax system and liberalized foreign exchange regulations.

Experts expect 4.0 percent real economic growth in 1989, 0.5 percentage points above the projected OECD average. The inflation rate remains at a modest 2.7 percent, largely due to moderate wage increases and an exchange rate policy which effectively links the schilling to the deutsche mark. Unemployment declined slightly from 5.3 percent in 1988 to around 4.9 percent in 1989, still high by traditional Austrian standards. However, some sectors now report labor shortages, particularly in the trades. Increased labor productivity (8.6 percent per employee in 1988), a high influx of foreign laborers, and more people looking for jobs prevented a more substantial drop in unemployment.

Given its small domestic market, Austria's industry depends heavily on exports. Exports equal 31 percent of GDP and the growth in foreign demand for Austrian goods has been an important factor for Austria's current economic strength. Austria's major trading partner is the EC, accounting for 66 percent of total foreign trade, followed by EFTA with almost 11 percent. In 1988, nine percent of Austria's trade was with Eastern Europe (including Yugoslavia). Trade with the United States accounted for 3.8 percent of imports and 3.5 percent of its exports in 1988. Trade with the United States, however, increased slightly in 1989.

The percentage of trade with the European Community and fear of being somehow disadvantaged as the EC develops a single internal market were factors behind Austria's recent decision to apply for EC membership. Although the EC Commission has begun collecting data on the Austrian economy in connection with the membership application, officials believe there will be no serious talks about accession to the Treaty of Rome until 1993, after the EC completes its internal market. Although Austria's economic strength is seen as an attribute in favor of membership, other factors, including the country's insistence that it maintain its permanent neutrality, have led some EC member states to question whether Austria should be accepted as a full-fledged member of the Community. Austrian officials in the meantime have pledged adherance to the EFTA group.

The Austrian Government is proceeding on schedule with plans to cut the budget deficit. The deficit is currently 3.9 percent of GDP. The Government hopes to cut the deficit to 2.5 percent of GDP by 1992. Funds from selling portions of the state-owned industries, cuts in government expenditure, and higher than expected tax revenues have helped the Government toward its goal. However, high payments for social programs, a major factor behind the budget deficits, continue. Sales of bonds and loans on the domestic and international capital markets finance the deficit. A major tax reform was implemented in 1989, making corporate tax rates among the lowest in Western Europe. The next step planned is to reduce value-added tax rates, currently above the EC average.

2. Exchange Rate Policies

The Austrian National Bank has traditionally followed a "hard schilling policy" which effectively pegs the schilling to the deutsche mark. This is done to avoid exchange rate fluctuations vis-a-vis Germany, Austria's largest trading partner, and to minimize imported inflation. By adjusting interest rates to maintain a slight differential vis-a-vis the Federal Republic of Germany, the Austrian National Bank discourages capital outflows. The Central Bank does not announce money supply targets, but uses changes in the rediscount rate and open market transactions to control the money supply. Austria continues to liberalize its foreign exchange restrictions.

In this connection, the Government withdrew all but four of its reservations to the OECD Capital Movements Code in 1989. The most important restrictions still in effect are on accounts and deposits abroad, on gold transactions, and on loans. The Finance Ministry must approve the listing of securities on the domestic capital market. There are also provincial restrictions on the purchase of land by foreigners. However, these usually pose no problem for commercial or industrial investments.

3. Structural Policies

There are a number of regulations in Austria which create a somewhat rigid business climate and stifle competition. The foremost example is the need to obtain business licenses for almost any type of business. License holders must have a certain type of education and work experience. In some trades, such as pharmacies and banks, there has to be a need for an additional business. If a foreigner applies for a license, the principle of reciprocity is applied. Government monopolies exclude private business in a few areas, such as gambling, tobacco, and salt (see Section 5). Certain products are subject to price controls. This means that there is a maximum official price for a variety of products including milk, milk products, and sugar. Other price-controlled products are heating oil, diesel oil, heavy heating oil, electricity, building materials, metal and foundry products, scrap metal, pharmaceuticals, tobacco and cigarettes. The extensive protection of employees' rights also creates a certain inflexibility for companies. It may be difficult, for example, to institute a third shift to increase production, or lay off staff when business slackens. Shop hours are fixed to protect the sales force from working weekends or late evenings as well as to protect small businesses which cannot afford the larger staff needed for longer hours.

The Government is aware of these rigidities and is examining their economic effects. It plans to continue deregulating the economy, for example, lifting some price controls and extending shop hours. There are also some initial deregulation efforts under way in the heavily protected agricultural sector.

To stimulate economic growth, the Austrian Government implemented substantial personal income and corporate tax cuts at the beginning of 1989. The most important taxes are: income tax (10 to 50 percent); corporate tax (30 percent); the value-added tax with a 20 percent rate for most products (a 10 percent rate applies on food; 32 percent on "luxury goods" including cars, boats, motorcycles, and airplanes); the crude oil tax; and property taxes. There are various other taxes in addition to customs tariffs.

Insofar as Austrian government purchasing policies are concerned, all federal agencies comply with the GATT rules. Public tender notices are published in German and English and bidding times are sufficiently long to allow foreign firms to submit their offers on time.

4. Debt Management Policies

According to "Institutional Investor", Austria's creditworthiness is the ninth best, worldwide. The Republic of Austria bonds are rated AAA. Foreign debt service in 1988 was AS19.5 billion, about five percent of annual export earnings. Total official debt outstanding is only 9.8 percent of GDP. Austria has a slight deficit in its merchandise trade account, but this is covered by tourism receipts. The federal budget consolidation policy now pursued by the Government could adversely affect government purchases and U.S. exports, but has had no noticeable impact so far.

5. Significant Barriers to U.S. Exports and Investment

There are no major political, cultural, tariff, nontariff, or other barriers that inhibit or restrict trade for U.S. goods and services. There are state monopolies in some areas and provision of cross-border insurance services, e.g., there are discriminatory taxes affecting insurance. A few Austrian regulations may discourage or delay imports from abroad but these do not represent legal barriers of a discriminatory nature. Import declarations are required for certain iron and steel products, and for blouses and shirts. This measure applies to imports of iron and steel valued at over AS4,000 and for blouses and shirts valued at over AS10,000. The requirement helps the Economics Ministry assess the accuracy of country of origin declarations. Antibiotics and medicines containing antibiotics are subject to discretionary licensing provisions but are usually licensed. Licenses are also necessary for imports of food products, including dairy products, red meats, poultry, grains (except rice), fruits, vegetables, and sugar.

Certain products, (such as feedstuffs, plant pesticides, and pharmaceuticals) require testing certificates by an Austrian testing institute or a government agency. Obtaining the testing certificate can be time-consuming, especially if the testing house finds that the product does not conform with Austrian standards. Austria is beginning to accept test certificates from certain foreign, authorized test institutions, limited currently only to some institutions in EFTA. In the long run, the Austrian Government wants to harmonize its standards with other West European countries.

There is also a large number of ordinances which impose complicated German-language marking and labeling requirements for textile products, clothing, steel, household chemicals, soaps, toiletries, and cosmetics. Austria also has very strict laws prohibiting certain additives and colors in food products and cosmetics. In addition, laws related to antibiotics, pesticides and other residues in food products are very stringent. Austrian law establishes monopolies for salt, alcohol, and tobacco. These monopolies limit the free trade in the products covered. Imports of certain types of alcohol and alcoholic beverages are subject to government approval, e.g., bourbon whiskey. Parliament fixes prices for imported tobacco products and, irrespective of cost and source, they are generally set at a level 30 percent higher than for comparable domestic products.

All radio and television transmitting and receiving equipment must be approved by the Post and Telegraph Administration (PTA), prior to import. This rule also applies to private imports for non-commercial purposes. In addition, all terminal equipment (fax machines, telephones, telephone answering devices, modems, data transfer equipment, etc.) needs PTA approval. The PTA checks whether the products conform with Austrian technical standards. The Austrian PTA will gradually start in mid-1990 to harmonize its standards with these of other European countries, in the framework of the European Telecommunications Standards Institute. The same rules and regulations on investments apply to both foreign investors and Austrians. There are no government policies known to affect specifically U.S. firms. It is impossible to describe all regulations covering investments, particularly as some apply only to specific industries. The most important generally applicable regulations are in the Business Code of

1973 (regulating independent business activity in production or services with some exceptions, such as banking and insurance). There are new, more stringent environmental laws, primarily designed to combat air pollution and to control the movements of hazardous waste. These laws have been passed at the provincial as well as on the national level.

Austria generally welcomes foreign investment and offers subsidies, especially for investment in depressed areas and for certain target industries. These industries include electronics, automobile parts, and industrial equipment firms. There is no screening mechanism for investors who do not require financial or other assistance from the Austrian Government. All foreign personnel are required to obtain working permits. It is generally no problem to obtain these permits for managerial positions or specialized jobs. Regarding services, foreign firms are required to obtain business licenses, as are Austrian firms. This applies to banks, insurance companies, travel agents, carriers, construction firms, and other services. The holder of the business license has to have a legal residence in Austria. Therefore, U.S. services companies have to enter into a joint venture with an Austrian firm or obtain the required license for their own subsidiary in Austria.

6. Export Subsidies Policies

Austria adheres to the OECD export credit arrangement. The Austrian Government promotes exports by providing export guarantees which cover economic, political and, in very special cases, exchange risks. The official export credit agency is the "Kontrollbank". The Austrian Government guarantees Kontrollbank's credit transactions if the proceeds of such transactions are used to finance exports. Furthermore, the Government contributes annually to Kontrollbank's borrowing costs; the 1988 and 1989 federal budget showed contributions of AS328 and AS220 million, respectively. There are also subsidies for exports of grains, dairy products, breeder and dairy cattle, slaughter cattle and beef.

7. Protection of U.S. Intellectual Property

Austria is a party to the principal intellectual property accords, including the Berne Copyright, Paris Industrial Property, Universal Copyright, Brussels Satellite and European Patent Conventions, as well as to the Patent Cooperation Treaty and is a member of the World Intellectual Property Organization.

The Austrian Government places little emphasis on intellectual property protection because Austrian products have not fallen victim to conterfeiting, piracy, or patent infringements. There is also no domestic industry lobby in Austria pushing for better intellectual property protection in the framework of the Uruguay Round, although it recently has been more active in the negotiations and generally supports

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U.S. objectives. Also, recently multinational companies operating in Austria requested increased protection, especially for pharmaceuticals.

Austria has a law against unfair competition as well as a patent law, a trademark law, a law protecting industrial designs and models, and since 1989, a law to protect the pattern design of semiconductors. U.S. investors are entitled to the same protection under Austrian patent legislation a. Austrians. Patents on inventions are valid up to 18 years after application. The protection period for trademarks is 10 years and may be extended by another 10 years if registration is renewed in time.

According to the Austrian Copyright Law, a levy for the import of home video cassettes and a compulsory license for cable transmission is required. The resulting revenues of the video levy and compulsory license are collected and distributed by exploitation agencies. A social fund gets 51 percent of these amounts. U.S. producers cannot share in the revenues derived from the levy because Austrian copyright law only protects those works of foreign authors according to the relevant state treaties or whose countries offer reciprocal rights.

The U.S. motion picture industry claims that its fight against video cassette piracy is severely handicapped in Austria by the inadequate protection afforded under the copyright law, as infringements are only prosecuted after private complaints from distrubtors are filed, and maximum penalties do not reflect the actual damages. Back-to-back copying is estimated by the industry to account for over 20 percent of the market.

8. Worker Rights *

a. The Right of Association

Austria protects the rights of workers to form and join trade unions, bargain collectively, and to strike.

b. The Right to Organize and BArgain Collectively

Unions have the right to organize and bargain collectively. More than 60 percent of the workforce belongs to trade unions. Trade unions have an important and independent voice in Austria's political, social, and economic life.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in Austria.

d. Minimum Age for Employment of Children

The minimum legal working age is 15.

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e. Acceptable Conditions of Work

Working conditions meet and exceed international standards.

f. Rights in Sectors with U.S. Investment

labor law amd practice are uniform throughout the country. Therefore, working conditions in those sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		127
Total Manufacturing		95
Food & Kindred Products	23	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	37	
Electric & Electronic Equipment	(D)	
Transportation Equipment	5	
Other Manufacturing	12	
Wholesale Trade		836
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,058

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Austria country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

BELGIUM

Key Economic Indicators

(Billions of Belgian francs (BF) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, and employment			
Real GNP	5,349	5,575	5,895
Real GDP growth rate (pct)	2.6	4.2	4.5
GDP by sector (pct)			
Agriculture	2.3	2.2	n/a
Industry	28.4	28.2	n/a
Construction	5.1	5.1	n/a
Private sector services	43.5	43.7	n/a
Public sector services	20.8	20.8	n/a
Real per capita income (BF)	536,896	576,337	635,30
Size of labor force (000)	4,126	4,135	4,135
Unemployment rate (pct)	10.6	10.4	9.3
Money and Prices			
Money supply (M1)	1,089.16	1,095.00	1,126.40
Commercial int.rates (pct)	7.1	6.8	8.3
Savings rate (pct)	14.4	15.0	15.2
Investment rate (pct incr)	9.8	21.9	23.0
Consumer price index (pct incr)	1.6	1.2	3.0
Wholesale price index (pct incr)	-3.5	1.3	3.13
Exchange rate (BF/$)			
Official	37.3	37.5	40.0
Parallel	37.4	37.7	40.2
Balance of Payments and Trade			
Total exports FOB	3,439	3,711	4,087
Exports to U.S.	163	173	n/a
Total imports CIF	3,586	3,502	3,850
Imports from U.S.	147	145	n/a
Aid from U.S.	n/a	n/a	n/a
Aid from other countries	n/a	n/a	n/a
External public debt	1,045.9	1,087.4	1,083
Annual debt service (paid)	n/a	n/a	n/a
Gold & forex reserves (mils)	335.7	566	n/a
Balance of payments	103	130	111

1. General Policy Framework

The overall economic picture in Belgium continues to improve, as it has been doing over the past few years, with many of the key economic indicators remaining on the upswing. Belgium experienced strong GNP growth in 1988 (4.2 percent), and again in 1989 with about 4.5 percent. Inflation remains moderate at about 3 percent. Corporate sector cash flow is strong, as witnessed by high levels of investment. Belgium's current account surplus amounts to approximately 2 percent of

GNP. In addition to strong European and global economic growth and the strong investment by Belgium companies, a major element in this improvement, and contributing to it, has been fiscal austerity, begun in 1981 with the Martens V Government, a center-right coalition.

Austerity was undertaken to control Belgium's ever-growing federal government budget deficit, which, at its peak, had reached 16 percent of GNP. Preliminary analysis indicates a 1989 budget deficit ofabout 7 to 7.3 percent of GNP, slightly above the Government's stated target of 6.9 percent. The Government's target for 1990 is 6.5 percent. However, the prospects for continued progress in reducing the deficit are somewhat problematic, because the current center-left coalition may find it difficult to impose further restrictions on spending and budget cuts in the politically-sensitive social services sectors. Instead, the Government has shifted the emphasis to maintaining a flexible freeze on real expenditures, and aiming to achieve further reductions in the budget deficit through continued economic growth.

In spite of the budget deficit problem, which has been described as the black spot or the dark cloud on the Belgian economy, Belgium continues to offer many advantages for the foreign investor. Its investment climate is undeniably open and hospitable with a tremendously wide range of incentives and inducements offered, the most advantageous combination of which would cover some 63 percent of the investment costs.

Belgium is a highly-industrialized country; its elaborate infrastructure and extensive transportation, banking, and communications systems combine to make the country a prime location for U.S. firms seeking to establish an office or facility abroad. Another key factor is the availability in Belgium of a highly-skilled and productive labor force, a product of a highly-developed and respected educational system, including a renowned university network. Further, the Belgian labor force is almost universally multilingual, with English being a common third language.

Belgium still faces structural economic problems, however. Some are longstanding but are being addressed systematically by the Government. These problems arose in the previous decade which saw rising wages and one of the most expensive and extensive social welfare systems in the world combine to drive up taxes and production costs, thereby reducing the competitiveness of Belgium's exports.

As perhaps the world's most export-intensive country (according to the Ministry of Foreign Affairs, the most export-intensive if the data are expressed on a per capita basis), Belgium experienced a decline in the profitability of its enterprises, an increase in unemployment, and an increasing government debt burden in the late 1970s and early to mid-1980s. Industry's declining viability brought on the advent of very heavy state subsidies for what are known as the five national sectors: steel, coal, textiles, hollow glass, and shipbuilding. These subsidies have been phased out, thereby forcing those sectors to undergo the necessary restructuring to make them competitive and economically viable. Moreover, the sectors now fall under the competence of the regional governments.

2. Exchange Rate Policies

Belgium participates in the exchange rate mechanism of the European Monetary System (EMS). The Belgian franc is equivalent at par with the Luxembourg franc--the two countries formed the Belgian-Luxembourg Economic Union, or BLEU, in 1919.

Belgium has a virtually unique system of dual exchange rates: the "free rate" allowed to float without government intervention and the "commercial" rate which the Government must maintain within a certain range of values vis-a-vis the other European currencies of the EMS.

The free rate, used for capital transactions, is usually less favorable to sellers of Belgian francs than the commercial rate. The difference between the rates can be taken as an indication of speculators' confidence in the Belgian franc. Immediately prior to the 1982 devaluation, the spread between the rates reached nearly 15 percent. Since September 1985 and continuing to the present, however, the spread has been in the range of only one percent. The Government is committed to eliminating the dual exchange rate system at the latest by the end of 1992, when the EC's single market is targetted for completion. The necessary implementing national legislation to harmonize the system with European Community (EC) directives is already under discussion in the Belgian Parliament.

Authority to use the official exchange rate, normally for commercial trade, is granted by the Belgo-Luxembourg Exchange Control Institute (IBLC) . Investors may also have access to the official rate, when desirable, if such use is considered to be in the national interest. The IBLC will guarantee that investment capital and revenues therefrom may be repatriated.

3. Structural Policies

The key word in any description of Belgium's structural policies continues to be devolution, or the process of giving responsibility or competency for certain functions to the three regions of Belgium: Wallonia (the French-speaking southern part), Flanders (the Dutch-speaking northern part), and Brussels (the national capital region). The implementing national legislation was enacted in early 1989. The national government will retain responsibility for certain functions, notably defense, justice, social security, and monetary policy, while the other functions, including substantial elements of economic policy, will be taken over by the regional governments. The share of the national budget now going to the regions has increased to approximately one-third to finance the exercise of these new responsibilities.

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This process is having--and will continue to have--major implications for economic and financial policy on both a domestic and international level. All government decisions and policies must be viewed in the light of an overall national viewpoint, as well as from the perspectives of the individual regions. The decentralization of responsibilites has heightened the need to ensure that legislation enacted regionally does not infringe on national treatment of U.S. enterprises, as provided for in the 1961 U.S.-Belgium Treaty of Friendship, Establishment, and Navigation, the OECD Code on Capital Movements, and the OECD National Treatment Instrument.

Belgium depends heavily on exporting, both with and without value added. Thus, Belgium places a premium on maintaining good relations with its trading partners and can be expected to continue to do so. This is particularly true of the investment climate. Belgium--both on a national and regional basis--actively seeks foreign investment. The national government and the three regions offer a variety of inducements and incentives to foreign firms, particularly those with a heavy research and development component or with extensive job creation potential, seeking to locate in Belgium.

Foreign investments in the transportation, banking, and insurance sectors are subject to screening, yet there are no extraordinary administrative procedures which must be observed. Foreign interests may establish a Belgian company on the same basis as domestic interests. Establishing a branch of a foreign corporation or acquiring the assets or shares of an existing corporation in Belgium are relatively simple matters.

With respect to industry, a contributing factor to the Government deficit was the large subsidies granted to the five national sectors of Belgium--steel, coal, hollow glass, textiles, and shipbuilding, those industries which for long had been the basis of the country's economy. These sectors had to receive subsidies in order to remain economically active. The subsidies have been phased out, and many of the affected firms have undergone extensive restructuring--which is most cases meant loss of jobs--or have closed. Two of the former beneficiaries of these subsidies, the textiles and steel sectors, now report profits on the company books after several years of losses.

Belgium's tax structure is still onerous at the personal income tax level with the highest marginal rate at 60 percent. Combined with high employer contributions to social security, the tax structure is seen as an obstacle to economic growth, and certain aspects of it have been cited by representatives of American companies as a deterrent and a major problem area. Although the new tax law reduced marginal tax rates on both personal and corporate income, it closed significant loopholes.

The United States-Belgium bilateral income tax treaty dates from 1970 and is now under renegotiation. A protocol to this treaty was concluded in December 1987 and was approved by the Belgian Parliament in April 1989. The instruments of ratification were exchanged in July, and the protocol went into effect retroactive to January 1, 1988. The protocol amends the existing treaty in that it provides for a reciprocal reduction of the withholding rate on corporate dividends from 15 to 5 percent, a feature which was actively sought by the American business community, in the benefits of the reduced rates of tax at source on dividends, interest, and royalties to those persons intended to enjoy those benefits.

4. Debt Management Policies

Belgium continues to have a high credit rating and high creditworthiness standard abroad and has had no difficulty in obtaining new loans. In fact, recent government loans were oversubscribed almost immediately after being announced to the public. Belgium is an international creditor, but only 16 percent of its overall debt is owed to foreign creditors. Belgium is an active member of the International Monetary Fund, the World Bank, and the Paris Club. Additionally, Belgium follows closely developing-country debt issues, particularly with respect to Zaire.

5. Significant Barriers to U.S. Exports and Investment

In January 1993, when the EC's internal market is integrated, Belgium will have harmonized most, if not all, of its barriers to both commodity and services sectors with those of the other eleven EC member countries. Thus, the potential for U.S. exporters to take advantage of this vastly expanded market will be far greater than it presently is. Another key point to bear in mind is the concurrent process of devolution, already described above. The 1992 process and devolution are taking place simultaneously, thereby altering greatly the domestic and international business scene as viewed from the Belgian perspective.

Some barriers to services and commodity trade do exist, however, and are discussed below.

Telecommunications: The Belgian telecommunications market is more open in theory than in practice to foreign suppliers of telecommunications equipment. It is now undergoing further liberalization, but whether the practice will change substantially remains to be seen. The RTT (Regie des Telegraphes et des Telephones) is a public authority which holds a monopoly on telephone service in Belgium. By administrative fiat, various sectors in the telecommunications area are gradually being turned over to the market to conform with the EC's telecommunications Green Paper.

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A new telecommunications corporation, BELGACOM, will be established in Belgium in 1989, and operational by 1990, to replace the present RTT. The supply and management of the network infrastructure will continue to be the exclusive domain of the new telecommunications corporation, as will a number of basic services, such as telegraph, paging, telex, packet switched data network, leased lines, and the future ISDN (integrated services digital network). However, some value-added and information services will be supplied in competition with the private sector, but the scope has yet to be determined. This will also be the case for the sale, installation, and service of terminal equipment. A separate Belgian institute for type-approval of telecommunication terminal equipment has been set up--the Belgian Institute for Telecommunications. All telecommunications equipment which is to interface with the basic network have to meet the technical requirements set by this Institute and obtain type-approval.

Procurement will be solicited by the RTT from specifications developed by the new Institute. All major producers are contacted, and bids are then submitted to the RTT. Belgian officials have stated explicitly that providing employment opportunities for Belgians is important in winning the major contracts.

The functions of BELGACOM and the Belgian Institute for Telecommunications have not been fully separated. Moreover, the Belgian internal market is, at present, effectively closed to foreign competition in the enhanced services field, but there are several foreign firms providing enhanced services on an international basis in partnership with the RTT.

Broadcasting and Motion Pictures: Belgium voted against the EC broadcasting directive because its provisions were not, in Belgium's view, strong enough to protect the fledgling film industry in Flanders. The Flemish (Dutch-speaking) region and Walloon (French-speaking) community of Belgium have local content broadcasting requirements for private television stations operating in those communities. The EC may, however, take the Walloon community to the European Court of Justice over the Walloon community restrictions.

In general, in Belgium broadcasting is categorized as being in the cultural domain, and, consequently, legislative responsibility for it has been devolved to the Flemish region and Walloon community. Both have bodies of law which impose certain restrictions on broadcasting by private television stations by requiring certain percentages of in-house programs. The Flemish decree, for example, provides for four types of television stations, and a separate ruling establishes guidelines for what it describes as its share of own cultural productions in the program schedules of non-public television broadcasters. Provision is also made for a gradual and mandatory increase of such programs over a five-year period.

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Some distributors of U.S. films in Belgium have commented that they are required by a Belgian court ruling to supply copies of a new release to the smaller theaters for release within a few weeks of the showing of the film by the larger theaters. While this practice is not discriminatory against U.S. producers, the requirement does increase their costs through their having to make and supply additional prints.

6. Export Subsidies Policies

There are no export subsidies, per se, offered by the Government of Belgium to industrial and commercial entities in the country. There is, however, an active program of trade promotion undertaken by the Government. When combined with the social expenditure break offered to companies by the Government, it is difficult to draw a line between what constitutes such an expenditure and a subsidy. If such an expenditure or contribution is made to a company engaged in exporting, it could by extension be determined an export subsidy but not in the strict interpretation of the term.

7. Protection of U.S. Intellectual Property

Belgium is party to the major intellectual property agreements, including the Paris, Berne and Universal Copyright Conventions and the Patent Cooperation Treaty.

The Benelux Convention on Trademarks, signed in Brussels on March 19, 1962, established a joint process for the registration of trademarks for Belgium, Luxembourg, and the Netherlands.

Dating from 1886, the Belgian Copyright Law provides insufficient penalities for copyright infringement. There is no specific copyright or patent protection for computer software. Updating of the legislation is under consideration; however, the prospects at the moment are not bright. Nevertheless, the EC Commission has also proposed a directive protecting computer software. Should it be adopted, Belgium would be required to adopt appropriate implementing legislation or rules. Although the proposed directive in its current version does not offer as much intellectual property protection for computer software as the United States, its adoption would still afford greater protection than is currently given.

There is widespread video cassette and compact disc piracy as well as the importation of copyrighted products into Belgium without royalty payments. An estimated 25 percent of Belgium's video cassette and compact disc markets is composed of pirated products. U.S. exporters are reluctant to sell to Belgium because of this lack of protection.

Belgium issues patent protection for a maximum of 20 years for registered inventions. A new patent law was implemented in 1984. Under the European Patent Convention, registered patents receive national treatment in all of the member states for which protection was sought in the original application. Product trademarks are available from the Benelux Trademark Office in The Hague. This protection is valid for ten years, renewable for successive ten-year periods. The Benelux Office of Designs and Models will grant registration of industrial designs for 50 years' protection. There is also the possibility of international deposit of industrial designs under the auspices of WIPO.

The Government of Belgium is keenly interested in intellectual property protection and actively follows the subject in the Uruguay Round negotiations. Some Belgian firms have seen their own research and development efforts pirated and are eager, therefore, to see improved standards of protection.

8. Worker Rights

a. Right of Association

Workers have the right to associate freely and to strike. With 75 percent of its labor force organized, Belgium is one of the most unionized countries in the world and has a long tradition of democratic trade union elections. Labor unions striking or protesting government policies are free from harassment and persecution.

Labor unions are strong and independent of the Government but have important informal links with and influence on many of the major political parties. Unions in Belgium are affiliated with the major international bodies representing labor, such as the International Confederation of Free Trade Unions and the World Confederation of Labor.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized and exercised freely. Labor legislation and practice are uniform throughout Belgium. The right to due process and judicial review are guaranteed for all protected activity. In the first instance, the Labor Court reviews matters relating to collective bargaining. Parties then have the right of judicial review by the regular courts. Effective mechanisms exist for adjudicating disputes between labor and management.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law and does not occur in Belgium.

d. Minimum Age for Employment by Children

The minimum age for employment of children is 16; they may work and study part time from age 16 to 18. The Belgian Labor Court monitors compliance with national laws and standards.

e. Acceptable Conditions of Work

Belgian working hours, mandated by law and through collective bargaining agreements, are among the shortest in Europe, averaging about 38 hours a week. There are provisions for minimum wage, currently $880 per month, for full time workers over age 21. This provides an adequate minimum standard of living. Workers typically receive at least four weeks of vacation and a bonus equal to one month's wages each year. Unemployment benefits are also guaranteed. Health and safety legislation exists, supplemented by collective bargaining agreements. Health and safety committees are mandated by law in companies with more than 50 employees. Government policies to promote employment and an extensive system of unemployment compensation and other social benefits have served to minimize serious individual hardship.

f. Rights in Sectors with U.S. Investment

Rights in these sectors do not differ from those in other areas. Worker rights are practiced and observed uniformly throughout the country. U.S. capital is invested in many sectors in Belgium. Equivalent worker rights apply to all sectors of the eeconomy in Belgium.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		551
Total Manufacturing		3,897
Food & Kindred Products	286	
Chemicals & Allied Products	2,181	
Metals, Primary & Fabricated	109	
Machinery, except Electrical	203	
Electric & Electronic Equipment	231	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		1,477
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		5,925

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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Key Economic Indicators

(Millions of Canadian dollars (C$)
unless otherwise stated)

Income, Production, and Employment	1987	1988	1989 (proj) 1/
Real GDP (SAAR, bils C$)	426.4	447.8	460.1
Real GDP growth rate (pct)	4.5	5.0	2.8
Real GDP by sector (factor cost)			
Manufacturing	72,952	77,380	79,005
Finance/Insur/Real Est	55,585	58,205	60,481
Trade	47,082	50,489	51,759
Community/busin/pers svcs	38,574	40,806	38,647
Transport/communications	29,349	31,705	34,570
Construction	27,827	30,140	31,988
Mining	21,499	23,382	23,962
Agriculture	11,535	9,432	10,004
Other utilities	11,320	11,556	12,156
Logging/forestry	2,748	2,763	3,171
Real per capita income	10,512	10,657	11,000
Total labor force (000s)	13,011	13,275	13,560
Unemployment rate (pct)	8.9	7.8	7.5
Money and Prices (yr-end)			
Money supply (M1)	35,963	35,708	37,036
Bank of Canada rate (pct)	8.66	11.19	12.50
Chartered Banks' prime rate (pct)	9.75	11.75	13.50
Commercial paper (90-day) (pct)	8.85	11.05	12.00
Personal savings rate (pct)	9.6	9.2	10.2
Consumer price index (1981=100)	138.2	143.8	151.3
Industrial product price index (1981 = 100)	122.8	128.1	132.1
Exchange rate (1 C$ = U.S. ¢) (avg annual closing rate)	75.43	81.24	84.25
Balance of Payments and Trade (US$)			
Merchandise exports	126,120	137,294	142,609
Exports to the U.S.	96,581	101,672	N.A.
Merchandise imports	114,767	127,486	136,471
Imports from the U.S.	78,986	88,037	N.A.
Global merch'dise trade bal	11,353	9,808	6,138
balance with the U.S.	17,595	13,635	N.A.
Global current acct bal	- 9,360	-10,316	-16,936
balance with the U.S.	5,793	- 557	N.A.
Gold holdings (mils US$)	919.5	807.2	N.A.
Official internat'l reserves (mils US$)	8,203.2	16,197.6	N.A.
Gross external debt (C$)	247.4	260.8	N.A.
Debt service payments	23,580	29,279	N.A.

1/ 1989 projections by the Conference Board of Canada.

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1. General Policy Framework

Canada has a mixed economy. Production and services are predominately privately owned and operated. However, the federal and provincial governments are significantly involved in the economy. They provide a broad regulatory framework and engage in considerable redistribution of wealth from high income individuals and regions to less advantaged persons and provinces. Also important are government-owned Crown Corporations such as the Canadian Broadcasting Corporation, Canadian National Railway Company, and Petro-Canada.

Canada is a major producer of natural resources and related products. Forestry, mining, and the energy sector are leading exporters. The economy is also fully industrialized and produces highly sophisticated consumer goods and capital equipment. Canada is the most important trading partner of the United States, with merchandise exports of US$101.7 billion to the United States and merchandise imports from the United States valued at US$88.0 billion in 1988. Vehicles and parts accounted for 30 percent of U.S. merchandise exports to Canada in 1988. U.S. exports of capital equipment and machinery also increased markedly in response to sharp increases in Canadian investment spending. The stock of total foreign direct investment in 1988 was C$110 billion, of which U.S. foreign direct investment amounted to US$61 billion. In 1986, 44 percent of the assets of Canadian manufacturing companies were foreign owned; the U.S. share of total assets was 30 percent.

Federal government economic policies since late 1984 have emphasized reduction of public sector interference in the economy and promotion of private sector initiative and competition. The Canadian Government dismantled the highly interventionist National Energy Program and converted the restrictive Foreign Investment Review Agency into Investment Canada, which was given a mandate to encourage foreign investment. Both federal and provincial governments undertook privatization of selected Crown Corporations.

The deficit and related expansion of government debt are the most pressing problems facing fiscal policymakers. The federal government made some progress in slowing the growth of public debt after 1984, reducing the annual federal deficit from C$38.3 billion in FY85 to C$28.1 billion in FY88. However, it rose to C$28.7 billion in FY89 and is projected to reach C$30.5 billion in FY90. Government options to reduce the deficit are constrained by the high level of non-discretionary spending in the federal budget. Statutory social transfers to individuals and to provincial and local governments account for 55 percent of the FY90 federal budget, while public debt service payments account for an additional 28 percent of projected spending. Even reduction of subsidies for regional development and other remaining discretionary programs such as defense and foreign aid would require the Government to make difficult political decisions. In 1991, the Government proposes to introduce a multi-stage value-added sales tax known as the goods and services tax, to contribute to the Government's deficit reduction effort among other things.

The Bank of Canada is a publicly-owned, quasi-independent central bank. The Governor of the Bank is appointed by the Government, while the Bank's board of directors are private sector representatives from across the country. The Bank rate or interest charge on central bank advances is set 0.25 basis points above the average yield on 90-day treasury bills at the weekly auction conducted by the Bank of Canada. The authorities may participate in the auction to influence its outcome. Other tools used to control the money supply include management of the Government's cash deposits with the chartered banks, purchase and resale agreements with money market participants, and open market operations. The Bank of Canada has been largely successful in maintaining relatively stable, although rapid, rates of growth in the monetary aggregates.

2. Exchange Rate Policies

The Canadian dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada operates in the exchange market on almost a daily basis for purposes of maintaining orderly trading conditions and smoothing rate movements. From December 31, 1987 to October 31, 1989, the Canadian dollar appreciated 10.7 percent against the U.S. dollar and, between December 31, 1987 and September 30, 1989, nearly 40 percent on a tradeweighted basis against the Group of 10 currencies. From December 31, 1987 to September 30, 1989, Canada's official foreign exchange reserves increased from US$8.2 billion to US$16.4 billion.

3. Structural policies

Prices for most goods and services, including land, buildings, capital equipment, and consumer goods are established by the market without government involvement. Energy prices were decontrolled in 1985 with the dismantling of the National Energy Program. There are some important exceptions, such as prices for health services, which are regulated by the Government.

The principal sources of federal tax revenue are corporate and personal income taxes, the manufacturers' sales tax, unemployment insurance contributions, customs duties, and energy taxes. In 1987-88, the Government reduced direct taxes on the energy sector and in 1988 further reform lowered corporate and personal income tax rates and eliminated or reduced exemptions and credits. This brought Canadian personal and corporate income tax rates more into line with comparable U.S. rates and reduced many of the distortions in the former income tax system. The Government is planning to reform the federal sales tax system, replacing the present manufacturer's sales tax and telecommunications tax with a multi-stage value-added tax on consumption. Known as the Goods and Services Tax (GST), this tax will apply to most goods and services, including imports, sold in Canada, and is scheduled to go into effect in January 1991. Although the Government may modify its GST proposal when it submits final implementing legislation for Parliamentary approval, the current proposal calls for a seven percent rate.

Federal government regulatory regimes affect foreign investment (see Section 5) and also U.S. firms in the financial services. Although foreign banks are subject to federal restraints on their operations and growth, U.S. banks have been exempted from most of these restrictions under the U.S.-Canada Free Trade Agreement (FTA). Provincial and federal reforms in 1987-88 enabled foreign securities firms to open offices in Canada and authorized banks to establish securities subsidiaries. In 1989 foreign firms were permitted to become primary distributors of Canadian Government securities. The Mulroney Government plans to introduce further financial sector reforms, largely to eliminate barriers between banks, trust companies and insurance companies. However, trust companies and the Province of Quebec are opposed to proposed restraints on links between financial and commercial companies.

Transportation Policies: The pro-competitive National Transportation Act and its companion legislation, the Motor Vehicle Transport Act, entered into force on January 1, 1988. While underscoring the continuing need to maintain high safety standards, this legislation introduced a greater degree of deregulation in the Canadian transportation industry. Among the provisions of the new Canadian transport laws are the following:

- the main regulatory body, the Canadian Transport Commission, was replaced by the more streamlined and accessible National Transportation Agency; regulation of airline passenger fares and air cargo tariffs were largely eliminated;

- market entry for domestic airline operations was eased; a uniform, nation-wide entry test for extraprovincial trucking operators was established, thereby reducing barriers against U.S. trucking operators; and

- collective ratemaking among railways has been abolished and shippers have been allowed for the first time to negotiate confidential contracts with carriers.

Transportation is not included in the FTA.

Telecommunications Policy: Canada has a complex mixture of federal and provincial legislation, policies and regulations regarding telecommunications. The carriers include private, governmental and mixed corporations and organizations. They are regulated either by a federal agency, the Canadian Radio-television and Telecommunications Commission (CRTC), a provincial public utility board, or a provincial or municipal government. The allocation and use of the radio spectrum is regulated by the Department of Communications.

An August 1989 decision by Canada's Supreme Court in the case of the Alberta Government Telephone Company has provided the basis for expanding federal jurisdiction to include provincially owned telephone companies in Manitoba, Saskatchewan and Alberta. Legislation has been introduced but not yet passed to implement this broader federal mandate.

The present government has expressed its intent to introduce a policy favoring more competition in telecommunications. A new Telecommunications Act, yet to be introduced, would define basic and enhanced services. While basic services would remain closely regulated and subject to limitations on foreign ownership, enhanced services would be opened to free competition, and to unlimited foreign investment.

4. Debt Management Policies

Canada's net external indebtedness (which excludes the equity component of both external assets and liabilities) rose from C$98 billion (22 percent of GDP) in 1984 to C$155 billion (28 percent of GDP) in 1987, a relatively high figure for an industrial country. While foreigners have been receptive to holding Canadian securities and such purchases have contributed to the strength of the Canadian dollar, the sharp rise in external indebtedness has made the Canadian dollar and economy increasingly vulnerable to shifts in international investor confidence.

5. Significant Barriers to U.S. Exports and Investment

Provincial Liquor Board policies regulate Canadian retail pricing, sales and distribution of alcoholic beverages. The Free Trade Agreement addresses a number of these policies (listing, distribution, and pricing) and provides dispute settlement procedures. The U.S. is concerned that all provinces are not adhering to the FTA and has made specific requests for information and justifications from the Canadian Government.

With respect to beer, since the FTA has entered into force, several provinces have introduced discriminatory measures in apparent conflict with the Agreement. The U.S. has asked the Canadian Government to justify these measures and supply audits of discriminatory markups on U.S. beer in Alberta, British Columbia, Manitoba, and Ontario.

The Canadian Wheat Board (CWB) controls all imports of wheat and wheat-based products through an import licensing system. Similar restrictions apply to barley and related products. Under the terms of the FTA, Canada agrees to eliminate these import license requirements as soon as the agricultural support levels for these commodities in both countries are equivalent. Based on mutual calculations, Canadian import permits for oats and oat products were no longer required as of June 6, 1989.

In January 1988, Canada expanded import restrictions on dairy products by implementing a permit system to restrict imports of ice cream and yogurt. On October 10, 1989, the GATT Council released a dispute settlement panel's finding that the quotas and permit system are inconsistent with Canada's GATT obligations. On December 4, 1989, the GATT contracting parties adopted the panel's findings.

Several restrictions apply to fresh fruit and vegetable imports. Canada prohibits sales of fresh fruits and vegetables without a prearranged buyer. Canada prohibits bulk produce imports without a waiver of Canadian standard packaging regulations. The FTA did not address these restrictions but will provide increased access to the Canadian market through gradual elimination of tariffs.

Canada maintains annual global import quotas for chicken, turkey and table eggs. The FTA will enlarge the quota quantities. On May 8, 1989, Canada imposed import quotas on broiler hatching eggs and chicks. Over time, Canada will shift allocation of import licenses to hatcheries. The shift could effectively eliminate U.S. shipment of chicks. The U.S. considers these actions inconsistent with Canada's GATT obligations and has consulted with Canada under the provisions of Article XXII of the GATT.

A preferred supplier relationship between Bell Canada, Canada's largest telecommunications service provider, and Northern Telecom, Canada's largest telecommunications equipment manufacturer, constitutes a barrier to U.S. export sales of telecommunications equipment to Canada.

The federal government proposes to apply a seven percent goods and services tax (GST) effective in 1991 to passenger air travel to the United States (except for Hawaii) as well as to the islands of St. Pierre and Miquelon. The Government will zero-rate the GST with respect to air travel to other international points. It justifies the distinction between international and U.S.-Canada "transborder" aviation on the grounds that Canada and the United States constitute a homogeneous air travel market. Tax discrimination between U.S. and other international aviation destinations would create a barrier to U.S. aviation and tourism services in Canada relative to other areas, particularly the Caribbean.

On April 25, 1989, Canada eliminated its export prohibitions on Pacific roe herring and two species of salmon. A GATT panel had found these prohibitions inconsistent with Canada's GATT obligations. Canada subsequently instituted a requirement that all roe herring and five species of salmon be landed in Canada before export. The U.S. challenged the consistency of the landing requirement with the GATT and the FTA. A dispute settlement panel, established under the FTA, found that Canada's landing requirement violated the terms of the GATT and the FTA. The United States is consulting with Canada on this issue.

Prior to December 1988 Canada had a policy requiring that all uranium exports be upgraded to the maximum extent possible in Canada prior to export. This policy served to restrict the opportunity of U.S. processors to offer conversion services for Canadian uranium, which is generally less expensive than for U.S. uranium because of higher ore quality. The FTA commits Canada to exempt the United States from the Canadian uranium upgrading policy. Under a new policy announced in December 1988, Canada granted the U.S. certain exemptions, but did not grant an exception for uranium converted in the United States but enriched and consumed in a third country or countries.

Canada denies Canadian enterprises tax deductions for the cost of advertising in foreign broadcast media when the advertising is directed primarily at Canadians. This negatively affects the operations of U.S. border television stations beaming programs into Canada.

Various restrictions on advertising aimed specifically at the Canadian market restrict U.S. access to the Canadian market for publications and print media advertising.

The Canadian Bank Act requires that banks process data on customer accounts in Canada, or if the data is processed outside of Canada, the bank must maintain a duplicate of any information relating to such records, which virtually precludes their processing in the United States.

Since 1979 the Canada Post Corporation (CPC) has applied higher postal rates to both foreign publications mailed in Canada and foreign publications printed and mailed in Canada, than to Canadian publications. The lower Canadian publication rates cost the Canadian Government about C$220 million per year in CPC subsidies to support Canada's book, magazine and newspaper sectors. In April 1989, the Government announced its intention to trim the subsidies by the end of March 1993. Subsidies are to be restructured and paid directly to publishers rather than to the CPC. Published postal rates for the year ending March 1991 show Canadian rates rising more, on a percentage basis, than U.S. rates. The differential, however, has increased rather than narrowed, despite the annouunced reduction in subsidies.

Several problems exist in the area of standards and labeling. Entry of most U.S. residential construction plywood is in effect denied because of Canadian Standards Association (CSA) plywood standards. The FTA is developing a common North American plywood standard to aid U.S. producers in entering the Canadian market. Canada maintains uniform minimum size requirements for apples packed in retail packs. Effective January 1, 1990, imports of thirty different fruits and vegetables in consumer packs must be grade-labeled. The United States considers that the burden of the requirements falls disproportionately on U.S. exports and that the requirement may violate Canada's international trade obligations under the FTA, the GATT, and the GATT Standards Code.

Under the Investment Canada Act and Canadian policies in the energy, publishing, telecommunications and transportation, film, music, and broadcasting and cable television sectors, Canada maintains laws and policies which interfere with new or expanded foreign investment. As well, foreign investment in the banking and financial services sectors is restricted under the Bank Act and related statutes.

The Act requires the federal government to review and approve U.S. and other foreign investment to ensure "net benefit to Canada." The Act exempts from prior government approval foreign investments in new ("greenfield") businesses and acquisitions worth less than C$5 million. The exemption excludes "culturally sensitive sectors" such as book publishing and distribution, film and video, audio music recordings and music in print or machine readable form. Also excluded as "culturally sensitive" are foreign investments to establish new businesses or acquire existing ones for the publication of magazines, periodicals or newspapers. Foreign investment in these sectors is potentially subject to review regardless of size or whether the investment is new or through direct or indirect acquisition. Indirect acquistions outside the cultural area worth C$50 million or more are also subject to review. Under the Free Trade Agreement, Canada commits to phase in higher threshold levels for review of direct acquisitions from C$5 million to C$150 million in constant dollar terms by 1992. Screening of indirect acquisitions will be phased out altogether by 1992. These liberalizations to the Invesment Canada Act agreed to in the Free Trade Agreement do not extend to investments in the "cultural industries" or the oil, gas and uranium sectors.

Further to the legal position on culture embodied in the Investment Canada Act, Investment Canada enforces specific federal book publishing guidelines. Canada requires forced divestiture of control to Canadians as a condition for approving such indirect foreign acquisitions as transfers of Canadian subsidiary ownership resulting from foreign mergers and acquisitions. In addition, Canada will approve new investments and direct acquisitions in the sector only if Canadians are given control within two years. Under the FTA, Canada commits to offer to purchase a Canadian subsidiary from a U.S. investor at fair open market value as determined by an independent, impartial assessment in the event of a forced divestiture in the cultural area pursuant to the review of an indirect acquisition.

Investment Canada also has specific policies regarding foreign investment in the film distribution sector which state that:

- takeovers of Canadian owned and controlled distribution firms will not be allowed;

- investment to establish new distribution firms in Canada will only be allowed for importation and distribution activities related to proprietary products; and

- indirect or direct takeovers of foreign distribution firms operating in Canada will be allowed only if the investor undertakes to reinvest a portion of its Canadian earnings in accordance with national and cultural policies.

Recent experience indicates this policy is being expanded into other cultural industries, particularly the commitment to reinvest earnings.

The Canadian Government continues to pursue as a long-term policy goal Canadianization (50 percent Canadian ownership) of the country's oil and gas industry. Although many of the provisions of the National Energy program introduced in 1980 have been rescinded, substantial restrictions on foreign investment in the energy sector continue in force. These restrictions have been "grandfathered" in the FTA. Direct acquistion of Canadian-controlled firms continues to be reviewable. Takeovers of healthy Canadian firms valued at more than C$5 million will be rejected. Purchases of unhealthy firms may be permitted subject to discussion of corporate undertakings of equity, investment and employment. Canadians must own at least 51 percent of an individual uranium property when it comes into production. While any foreign firm may begin business in Canada, bid for leases, and explore for and develop oil and gas reserves, a Canadian ownership ratio of at least 50 percent is required before a consortium can receive an oil or gas production license on Canadian lands, including Canadian offshore areas on the west, east and north coasts, the Northwest Territories and the Yukon.

In the banking sector, the Bank Act of 1980 made chartering of foreign banks possible for the first time. However, the Act imposed on foreign banks limitations that do not apply to domestic institutions, e.g., foreign-owned banks chartered in Canada are limited to a main office and one branch, but additional branches may be opened with government approval. The Act also restricted the total asset share of foreign bank subsidiaries to 8 percent of total domestic assets of all chartered banks in Canada, although a 1984 amendment to the Act raised this to 16 percent. Foreign banks wishing to acquire a Canadian bank also face restrictions, in that any one bank cannot hold more than 10 percent of a Canadian bank's assets (this is nondiscriminatory since the same restriction applies to Canadians). However, an additional provision is discriminatory in that no more than 25 percent of a bank's assets can be held by foreigners.

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The FTA eliminates all discriminatory restrictions on U.S. bank subsidiaries in Canada. It also exempts U.S. firms and investors from the discriminatory aspects of the federal "10/25" rule so that they will be treated as Canadian firms. The FTA as well eliminates the federal "10/25" rule for acquisitions in the non-bank financial sector.

In the securities sector, provincial laws which regulate the sector were recently amended to abolish the "10/25" rules applying to investment in securities firms. In the trust and loan and insurance sectors, which are regulated by both the federal and provincial governments, foreign investors wishing to establish in either of these two areas may do so, but acquisitons of Canadian firms are still subject to both provincial "10/25" rules and to the federal "10/25" rule as described above.

As already noted, Canada reserves the right to review certain foreign investments and consider any conditions investors "volunteer" consistent with the Investment Canada Act. Once an investor "volunteers" to meet various performance requirements, the undertakings are de facto preconditions to entry. The FTA ends the imposition of most performance requirements on U.S. investors and third-country investors when U.S. interests would be affected. Under the FTA, export requirements, import substitution, domestic content and local purchasing requirements are prohibited.

Investment Canada offers ample administrative authority to deny national treatment to foreign-owned investors in certain sectors, e.g., book publishing, and also permits considerations based on nationality (rather than antitrust) for indirect acquisitions of some Canadian firms. Limitations on national treatment as reported to the OECD include:

- discriminatory federal and provincial grants and other types of financial assistance for oil and gas exploration, minerals exploration, agriculture, publishing, and retail and wholesale commerce;

- discriminatory federal and provincial provisions on income tax and land transfer taxes;

- several discriminatory government procurement practices; and

- right of establishment restrictions on new investment by already established investors.

Where GATT Government Procurement Code or FTA requirements do not apply, Canadian Government entities maintain a preferential sourcing policy by soliciting bids according to a system favoring Canadian-based firms over foreign-based firms. The preferential sourcing policy is maintained by soliciting bids from vendors on source lists (generally without publication, except on GATT code-covered or Free Trade Agreement procurements). If there is sufficient competition from Canadian-based sources, foreign-based firms are not invited to bid. Single-source procurements are also used to favor Canadian firms.

The major federal procurement entity, Supply and Service Canada, administers a fund to establish domestic supply sources and encourages domestic suppliers with published information in procurement outlook conferences (generally open to foreign supplers).

Canada's industrial benefits policy is administered through a "procurement review mechanism." Its goal is to obtain lasting benefits from federal procurement activity beyond the immediate procurement expenditures' impact "toward the economic or social development of Canada." Frequently resulting in "offsets," this policy is one of Canada's most objectionable government procurement practices.

For purchases not covered under the GATT Procurement Code, SSC maintains an informal 10 percent price preference level for "Canadian content." Canada's federal and provincial quasi-government (Crown) corporations follow strong "buy national" or "buy provincial" policies. Products affected include telecommunications, heavy electrical and transportation-related products.

6. Export Subsidies

The Canadian Government subsidizes rail transportation of wheat, barley, oats and many other agricultural commodities intended for export. In 1984, the Canadian Government extended rail rate subsidies to exports of these and an enlarged list of commodities destined to the western United States. The Free Trade Agreement eliminated subsidies on agricultural products shipped to the United States through west coast ports, though not on shipments to third markets or through Thunder Bay.

Under the terms of the FTA, Canada will terminate all export-based duty remission schemes for automotive products by 1998. In the interim, Canada has excluded exports to the U.S. in calculating the duty waived.

Canada's production-based duty remission program for automotive products provides for the rebate of customs duties to qualifying foreign automobile firms on their imports of automobiles and original equipment automotive parts into Canada. Under the program, duty remissions are granted in proportion to the amount of "Canadian value-added" generated by these firms in Canada. Under the provisions of the FTA, Canada has agreed to terminate the program by 1996 or any earlier date specifically agreed with participating firms and to limit application of the program to four companies.

CANADA

7. Protection of U.S. Intellectual Property

Canada is a party to the Berne, Paris, and Universal Copyright Conventions.

The Canadian Government has longstanding legislation to protect intellectual property rights and effective law enforcement. The Canadian Patents Act, first passed in 1869, was most recently amended on November 19, 1987. By significantly improving protection for patented drugs, this amendment was a positive step in resolving some of the complaints voiced by the U.S. pharmaceutical industry concerning alleged Canadian bias in favor of generic drugs. however, the law still contains compulsory licensing for pharmaceuticals. These provisions are discriminatory as drugs invented in Canada are exempt from some types of compulsory licensing while drugs invented abroad are not. Because of this continued inadequacy, the U.S. Trade Representative placed Canada (together with 16 other countries) on the "Watch List" under Special 301 of the 1988 Omnibus Trade and Competitiveness Act.

Another remaining concern is the lack of adequate legislation to protect semiconductor design topographies. However, Canadian authorities participate actively in multilateral negotiations to achieve a viable regime to adequately protect this high technology sector. The negotiations did not achieve a solution that either the United States or Canada believes sufficient but demonstrated that we share the same goal for standards in this area.

Copyright legislation has been strengthened but problems remain. The amendment of June 8, 1988 to the Canadian Copyright Act provided explicit protection to computer programs, increased criminal penalties for commercial piracy, and clarified several ambiguities in the extent of the coverage provided by the earlier copyright and industrial design protection statutes.

A further copyright amendment has been enacted acknowledging compensation rights for U.S. copyright holders whose radio and television signals are being retransmitted into Canada from the United States by Canadian cable operators. The measure, introduced in compliance with the terms of the Free Trade Agreement, fell short of U.S. expectations regarding the extent of the signal that would be subject to copyright protection. However, the law did establish a Copyright Board to adjudicate claims. The Board is obligated to announce its compensation tariffs by January 1, 1990. Prospects for a satisfactory settlement are uncertain at this time.

Regarding multilateral efforts to strengthen intellectual property protection, Canada has generally shared the views of the United States. Most recently, Canadian authorities have been working together with the United States to bring about a stricter regulatory regime in the context of the Uruguay Round.

8. Worker Rights *

a. The Right of Association

Workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised.

b. The Right to Organize and Bargain Collectively

Workers in both the public and private sectors freely exercise their rights to organize and bargain collectively. Some essential public sector employees have limited collective bargaining rights which vary from province to province. Trade Among Canada's non-agricultural workforce, 36.2 percent are members of trade unions.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor practiced in Canada.

d. Minimum Age Employment of Children

Generally, workers must be 17 to work for the federal government. Provincial standards (covering 90 percent of the national workforce) vary, but generally require parental consent for workers under 15 or 16 and prohibit young workers in dangerous or nighttime work.

e. Acceptable Conditions of Work

Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards. Those standards are respected in practice.

f. Rights in Sectors with U.S. Investments

Worker rights are the same in all sectors, including those with U.S. investment.

CANADA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		11,711
Total Manufacturing		28,141
Food & Kindred Products	2,178	
Chemicals & Allied Products	5,393	
Metals, Primary & Fabricated	3,312	
Machinery, except Electrical	3,160	
Electric & Electronic Equipment	2,176	
Transportation Equipment	6,408	
Other Manufacturing	5,514	
Wholesale Trade		3,819
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		43,671

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Canada country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

CYPRUS

Key Economic Indicators

(Millions of Cyprus pounds (CP) unless otherwise stated)

	1987	1988	1989 (est)
Income, Production, Employment			
GDP (mkt prices)	1,778	1,976	2,174
Real GDP growth rate (pct)	7.0	6.9	6.0
GDP by sector (pct)			
Agriculture	7.3	7.6	7.7
Manufacturing/mining	16.5	16.5	16.5
Construction/electricity	12.6	12.5	12.5
Trade/hotels/restaurants	20.2	20.7	20.9
Transport	9.7	9.5	9.4
Finance	15.2	14.8	14.6
Services (incl govt)	17.8	17.8	17.8
GNP per capita (CP)	3,271	3,597	3,913
Labor force (thousands)	256.3	261.0	265.0
Unemployment (pct)	3.4	2.8	2.3
Money and Prices			
Money supply (M1)	316.2	360.0	400.0
Commercial interest rates (pct)	9.0	9.0	9.0
Savings rate (pct) 1/	30.5	29.7	29.5
Investment rate (pct) 2/	22.6	23.0	23.2
Consumer price index (pct incr)	2.8	3.4	4.0
Wholesale price index (1986 = 100)	99.7	101.0	101.2
Exchange rate (ann avg) (CP1/$1)	2.08	2.14	2.00
Balance of Payments and Trade			
Total exports FOB	279.9	357.9	330.0
Exports to U.S.	5.3	7.1	8.3
Total imports CIF	645.6	796.4	850.0
Imports from U.S.	32.2	39.6	45.0
Aid from U.S. ($)	15.0	15.0	15.0
Aid from other countries (est $)	7.3	7.2	6.0
External public debt	650.0	640.3	734.0
Annual debt service payments (paid)	110.6	115.0	120.0
Gold and forex reserves	501.2	571.8	710.0
Balance of payments	9.8	-4.3	45.0

1/ Private domestic savings ratio, as a percentage of GDP.
2/ Gross fixed capital formation, as a percentage of GDP.

CYPRUS

1. General Policy Framework

The Republic of Cyprus enjoys a generally open, stable and prosperous free market economy. It is closely associated with the European Community by tradition and by agreements in 1973 and 1988 providing for gradual movement to a customs union. Cyprus runs a modest balance-of-payments surplus, as merchandise trade deficits are generally offset by earnings from a flourishing tourism sector. (Note: Since 1974 the northern 36 percent of the island has been under exclusive control of the Turkish Cypriot community. The per capita income there is less than a third of that in the south and the area receives extensive Turkish aid. Comments in this report deal exclusively instead with the policies in effect in the areas controlled by the Government of Cyprus.)

Fiscal Policy: The government's fiscal deficit fell unexpectedly from Cyprus pounds (CP) 78 million (4.4 percent of GDP) in 1987 to CP67 million (3.4 percent of GDP) in 1988. A 22 percent jump in imports increased revenue from import duties and expanded economic activity brought about higher personal and company tax proceeds. The Central Bank estimates that during 1989 the deficit grew proportionately to GDP and reached CP76 million. President Vassiliou has pledged government efforts to cut the deficit further to 1.5 percent of GDP by 1992. To date, there has been no legislative action on an extensive fiscal reform package announced in November 1988. The main fiscal policy tools now available to the Government are a graduated income tax, corporate tax and customs duties. The Government has proposed a value-added tax as part of the reform package.

In 1988, 87 percent of government spending was for current operations. Of this amount, 54 percent was for goods and services, mainly wages and salaries; interest payments accounted for 15 percent; and social security fund payments absorbed 16 percent. Development expenditure comprised 11 percent of total spending during 1988.

The deficit is mostly financed through domestic borrowing, which increased by CP86 million net in 1988 (through treasury bill issues, new issues of development stock, and savings certificates). Foreign borrowing fell CP13 million in 1988 as loan repayments (CP98 million) exceeded new borrowing (CP85 million.)

Monetary Policy: Since interest rates are fixed by law the Central Bank of Cyprus sets high bank reserve ratios to promote monetary stability. The minimum bank reserve requirement averaged 30 percent in 1988. Even so, total liquidity (M2) continued to grow much faster than nominal GDP for the third consecutive year; it expanded 13.2 percent in 1987 and 17.5 percent in 1988. Bank credit to the private sector increased 18.2 percent. Cooperative credit institutions are exempt from the reserve requirement and currently handle about a third of the credit to the private sector.

CYPRUS

2. Exchange Rate Policies

The Central Bank establishes a single official exchange rate for the Cyprus pound, adjusted daily at the Bank's discretion. The Cyprus pound is pegged to the average value of a basket of currencies of Cyprus' main trading partners. Exchange control restrictions are aimed at limiting portfolio investment abroad by Cypriots. They do not affect price competitiveness of U.S. exports. Residents are not allowed to hold foreign currency except with permission. Receipts from exports must be repatriated within a maximum of 180 days. Payments abroad for imports, limited amounts for foreign travel, and fees for schooling abroad may be obtained through commercial banks.

Non-residents may maintain external accounts in Cyprus pounds as well as unrestricted foreign currency accounts. Permission for the repatriation of capital, profits, dividends and interest arising from a non-resident's investment in Cyprus is granted freely. Exchange control permission is necessary for the transfer of shares from non-residents to other non-residents or to residents; it is readily given on presentation of accounts. Royalties and other payments on the transfer of technology must be approved in advance. Capital gains from the sale of property may be transferred over time, subject to an annual maximum of CP5,000.

3. Structural Policies

Pricing Policies: The Government controls prices of fresh produce and foodstuffs. A price commission administers maximum markups of imported industrial goods. When dumping is involved, the government may ban outright the import of a product posing unfair competition for local manufacturers. Subsidies to grain and grapes growers were about CP32 million in 1988. The government Grain Commission provides mostly imported grain at subsidized prices to millers and consumers; Cypriot farmers receive double the world price. The government subsidizes operating costs of vineyards, grape prices and the export of wine. Agricultural subsidies do not affect the competitiveness of U.S. products.

Tax Policies: The overall level of taxation in Cyprus is low. In 1988 total taxes were only 17.5 percent of the island's GDP. Corporate taxes were about one percent of GDP and provided only four percent of revenue. The most important taxes are customs duties, individual income taxes, corporate income taxes, taxes on royalties, dividends and interest, the capital gains tax, and property taxes. Various tax incentives are available for the resident and non-resident investor alike.

Regulatory Policies: Cyprus uses European standards (especially British) in construction and manufacturing. None of these regulations directly affects U.S. exports.

CYPRUS

4. Debt Management Policies

The debt of the Government of Cyprus is mostly domestic. No rescheduling or adjustment programs have been necessary. At the end of 1988 public and publicly guaranteed medium- and long-term domestic and foreign debt totalled CP764 million, equivalent to 38.7 percent of GDP. The debt situation does not affect Cyprus' trade with the U.S.

5. Significant Barriers to U.S. Exports and Investment

Customs Union with the European Community (EC): Cyprus has given preferential tariff treatment to the EC since its association agreement in 1973. During the first stage of the agreement tariffs on imports from the EC were reduced by 35 percent, as compared with imports from all other countries. Beginning in 1988, a Customs Union Agreement instituted further annual reductions of 9 percent designed to complete the unification in ten years. (EC countries now receive 43 percent of Cypriot exports and provide 55 percent of imports.) Cyprus will adopt the EC's common customs tariffs schedule and, on mutual consent, the rules-of-origin requirement will be abolished.

Investment: Any application for foreign investment in Cyprus must be approved by the Central Bank. Priority is given to new products, new technologies and new methods of production. Export-oriented production is encouraged. Other factors considered include prospective competition with established manufacturers, the extent of Cypriot participation, improvement of the productive structure of the economy or the quality of products being produced in Cyprus, use of local materials and creation of new employment opportunities.

The extent of allowable foreign participation depends mainly on the sector or activity of the investment:

- for export oriented businesses in the Larnaca Free Zone: up to 100 percent;

- for new products: up to 49 percent, but for highly desirable projects up to 100 percent;

- for tourist projects: up to 49 percent for very limited types and areas (otherwise prohibited);

- for "traditional activities" (including agriculture, fishing quarrying, manufacturing of food, beverages, tobacco, furniture, footwear, paper, leather, chemicals, pumps and solar energy heaters): usually 24 percent, but in very few cases up to 49 percent;

- for "saturated sectors" (retail trade, construction, restaurants, cafes and real estate) permission is usually not granted;

CYPRUS

- for "residual activities" (accounting, data processing and manufacturing of certain types of goods): usually up to 49 percent; and

- for "sectors of specific treatment" (public utilities, banking, insurance, telecommunications, electricity and others) treatment is on a case-by-case basis.

During the last decade, Cyprus has introduced a series of incentives through tax and other legislation to encourage investment in its economy.

Labor Certification: Non-residents wishing to take up employment in Cyprus must have a permit under the "Aliens and Immigration Law." For cases of approved foreign investment or for offshore companies with personnel needs not met locally, the granting of such a permit is a routine matter.

6. Export Subsidies

The only export the Government subsidizes, though indirectly, is wine. Every year the government grants about CP9 million in subsidies to local wineries. Despite these efforts, however, wine represents only about two percent of exports originating in Cyprus.

7. Protection of U.S. Intellectual Property

Cyprus is a signatory to the Berne Copyright Convention.

Copyrights: Infringement is widespread. Cypriot producers of pirate videos and cassette recordings sell them openly to video clubs, to individuals and to the more than one million European tourists who visit Cyprus each year. The video cassette market is said to consist entirely of pirated products.

According to the U.S. motion picture industry, Greek cinema prints are an important source for pirated Cypriot cassettes. Cyprus is said to be the source of pirated materials appearing in the Middle East. In addition, unauthorized public performance is a problem, with unauthorized diffusion to hotel rooms and a pirate television station broadcasting feature films. In response to complaints from the three remaining cinemas, the government is now studying legislation to ban distribution of video cassettes of films within the first 18-months of release.

One American manufacturer has complained that a Cypriot exporter infringes his trademark for packaging for roofing material sold throughout the Middle East. Although redress is possible in principle through the courts, no complaint has yet been lodged in these cases.

CYPRUS

8. Worker Rights *

a. The Right of Association

Trade unions and confederations are free to organize on both sides of the cease-fire line which divides the two communities. More than 80 percent of Greek Cypriot workers and 40-50 percent of Turkish Cypriot workers belong to independent trade unions. In both communities, trade unions take stands freely and regularly on public policy issues affecting the workers. Most unions are affiliated either with the International Confederation of Free Trade Unions or with the World Federation of Trade Unions. All Cypriot workers have the right to strike. Unions in both parts of Cyprus freely take part in international meetings. ~~Both the~~ Government of Cyprus and the Turkish Cypriot authorities have the power to curtail strikes in what are deemed to be essential services.

b. The Right to Organize and Bargain Collectively

Under law, and in actual practice, trade unions and confederations are free to organize and to bargain collectively in both parts of Cyprus. In both the north and the south, parties to a dispute may request mediation by the authorities. In both sectors legislation prohibits dismissal for participation in trade unions. There are no areas in either the Greek or Turkish Cypriot zones where the right to organize and bargain collectively is barred.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law and no instances were reported.

d. Minimum Age for Employment of Children

The Government of Cyprus has set the minimum age of employment of children in an "industrial undertaking" at age 16. In the north, the age is 15. The law is effectively enforced in both sectors through labor inspection.

e. Acceptable Conditions of Work

In the south, minimum wage laws exist for apprentices between 16 and 18. The wage set for this group is equal to about $250 per month. Minimum wages for other groups are fixed through collective agreement. In the north, the minimum wage equals about $100 per month. The Government of Cyprus has set 40 hours as the maximum hours of work per week except for shop workers and drivers, who work no more than 42.5 hours. In the north, the maximum number of work hours per week in the winter is 38, and in the summer 36. Occupational safety and health regulations are effectively administered in both sectors, though the standards are not equivalent to those in Western industrialized countries.

CYPRUS

f. Rights in Sectors with U.S. Investment

U.S.-based international petroleum companies in the south have invested in facilities for distribution and retail sale of their products. Workers' rights as defined in Section 502(b) (4) of the U.S. Trade and Tariff Act of 1974 are guaranteed by law and strictly enforced by the government.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

DENMARK

Key Economic Indicators

(Millions of Danish kroner (Dkr) unless otherwise stated)

	1987	1988	1989 (est)
Income, Production, and Employment			
Real GDP (1987 prices)	692,325	689,556	696,000
Real GDP Growth (pct)	-0.7	-0.4	0.9
Real GDP per capita (Dkr)	135,013	134,424	135,700
GDP by sector (pct) 1/			
Agriculture	4.9	4.5	3.3
Manufacturing	20.4	20.3	20.5
Raw materials	0.6	0.5	0.7
Utilities	1.5	1.5	1.5
Building/Construction	6.7	6.2	5.4
Market services	46.4	46.7	48.5
Public services	23.4	24.0	23.9
Overlap corrections	-3.8	-3.8	-3.9
Labor force (1,000)	2,836	2,851	2,871
Unemployment rate (pct)	7.8	8.5	9.3
Money and Prices			
Money supply (M1) (avg)	214,885	240,145	258,650
Money supply (M2) (avg)	333,612	344,266	362,500
Bank lending rate (pct)	13.4	13.2	13.0
Savings rate (pct of disposable personal income)	14.3	13.1	14.3
Investment rate (pct/GDP)	19.1	18.0	17.9
Consumer price index (1980=100)	158	165	173
Wholesale price index (1980=100)	138	143	151
Exchange rate (DKr/$)	6.84	6.73	7.40
Balance of Payments and Trade			
Commodity exports FOB	175,302	187,381	209,230
Exports to U.S.	12,385	10,843	12,015
Commodity imports CIF	174,066	178,269	200,760
Imports from U.S.	9,306	10,679	13,020
Govt external debt 2/	127,637	124,332	126,200
Govt debt service	11,500	18,900	20,700
Gold and forex reserves 2/	64,369	76,239	60,000
Balance of payments	-20,651	-12,224	-13,000

1/ percent by gross factor income distribution
2/ end of period

DENMARK

1. General Policy Framework

Following the economic recession which lasted from 1986 through 1988, there are now clear signs of a relative recovery in the Danish economy--although at a rather slow pace. The gross domestic product (GDP) is expected to increase about 2 percent in 1989 compared to a drop of 0.5 percent in 1988. The increase in the volume of exports of manufactured goods indicates that Danish industry is improving its international competitiveness. Domestic demand has been increasing throughout 1989, but this increase is entirely due to increases in business investment, as private consumption remains at the 1988 level. The increase in business investment was primarily the result of the flagging-home of ships to the new Danish international ships register and to major investment projects such as the Great Belt Bridge and in the power and heat sectors. Business investment in plant continues to decline, in 1989 by 15 percent following 9 percent in 1988. The outlook for 1990 is that GDP will increase 1.5 percent, supported by a continued strong growth in exports and moderate increases in private consumption and business investment. Public consumption and investment, on the other hand, are expected to drop between 1 and 2 percent.

Since 1982 the Government has succeeded in reducing the huge deficit on the central government budget from 10 percent of GDP in 1982 to about 2.5 percent in 1989 (the 1987 accounts actually showed a small surplus). The present deficit is primarily a function of lower than expected tax revenue caused by slower than expected growth in incomes. However, the public sector as a whole has had a small surplus for a number of years. In order to finance the recurrent balance of payment deficit without exhausting foreign exchange reserves, Danish interest rates are kept at higher levels than abroad. Fluctuations in the interest rate, however, follow those of Denmark's major trading partners, particularly the Federal Republic of Germany. . This was last seen in October 1989 when an increase in the West German interest rate immediately resulted in a similar Danish increase. High interest rates also dampen domestic demand and thus imports, but at the same time adds to industry's costs.

Since October 1983 the Central Bank has not used the discount rate as a monetary policy tool. Instead money supply has been controlled through a system which manages the commercial banks' liquidity. While the annual increase in the narrow money supply (M1) in recent years has been above 10 percent, the increase in the broad money supply (M2) has been less than five percent. This development has, inter alia, been triggered by a significant shift from time deposits (included under M2) into long-term pension savings or tax-privileged deposits, which are not included under M2.

The deficit on the current account of the balance-of-payments remains of serious concern to the Government. The deficit in 1989 will come to about 13 billion kroner, or almost the same as in 1988. This figure, however, conceals the fact that Denmark is exporting more than it imports. In 1988 the trade balance in goods and services showed a surplus of more than 20 billion kroner. The Government expects the trade surplus to increase to more than 30 billion kroner in 1990. This increase, however, will still be insufficient to offset the interest payments on Denmark's huge foreign debt. The recent increase in international interest rates means that interest payments will weigh even heavier on the current account, as each one percentage point increase raises Danish costs by some three billion kroner.

2. Exchange Rate Policies

Denmark is a member of the European Monetary System (EMS), which has helped the government maintain its stable krone policy. Since 1982, the government has firmly opposed attempting to solve Denmark's economic problems through exchange rate adjustments; i.e., a devaluation of the krone. On a trade-weighted basis, the krone in September 1989 was at the same level as in late 1982. While Denmark has not warmly embraced stages two and three of the Delors Plan for the creation of an EC economic and monetary union, it supports expanded monetary cooperation, including liberalization of other EC countries' capital movements and membership in the EMS by all EC countries. Responding to the EC directive calling for full liberalization of foreign exchange flows, Denmark, almost two years ahead of time, in October 1988 repealed its few remaining restrictions in that area.

Over the period 1985 to 1988 the dollar dropped more than one-third against the krone. Although this trend was reversed in 1989, with the dollar rising some 10 percent against the krone, the improved competitive position of U.S. products has had a major impact on Danish-U.S. trade developments. In current dollar terms, Danish imports of U.S.-origin products in the first eight months of 1989 increased more than 20 percent to a level some 65 percent above 1985 imports. This large increase, however, was the result of extraordinarily large U.S. coal and aircraft sales to Denmark. By contrast Danish exports to the United States in 1989 dropped to a level 15 percent below the 1985 exports. This development shifted the recurrent U.S. trade deficit with Denmark since 1983 (peaking in 1985 at $700 million) to a U.S. trade surplus in the first eight months of 1989 of $200 million.

3. Structural Policies

Due to its heavy dependence on foreign trade (exports and imports each account for about one-third of GDP), Denmark has always pursued a policy of non-discriminatory or national treatment with its foreign trade partners. Denmark also welcomes foreign direct investment, and with a very few exceptions foreign investors in Denmark receive national treatment. Investment incentives are few, but the Government recently allocated 65 million kroner to attract investment in Denmark by U.S. and Japanese high technology companies.

DENMARK

Danish taxes are high by international standards--the corporation tax is 50 percent; the marginal income tax about 68 percent; the value-added-tax (VAT) 22 percent; and there are a number of very high excise taxes, particularly on tobacco, liquor, and automobiles. U.S. sales of automobiles to Denmark are at a 10 percent competitive disadvantage versus imports from EC and EFTA countries, as the VAT and the very high registration tax ranging between 105 and 180 percent are imposed on the duty paid value. EC and EFTA produced automobiles enter duty-free, while a 10 percent duty is imposed on U.S. automobiles. Despite this situation, Chrysler, after an 11-year hiatus, in late 1989 reintroduced its U.S.-produced cars into the Danish market, and the company expects to sell 400-500 cars in 1990.

It is still uncertain to what extent Danish taxes and excise taxes will be harmonized with those of the other EC countries in connection with the EC single market. However, there is a political majority for a reduction of corporation and personal income tax rates through a reform of the Danish tax system, but the means to attain this remains a matter of often acrimonious political debate between the minority government and the opposition Social Democratic party. There are indications that the corporation tax rate will be reduced to between 30 and 40 percent, perhaps from sometime in 1990, but the reduction is likely to be government revenue neutral in that a number of favorable depreciation rules will be repealed.

Except for EC agricultural export subsidies, Denmark has no direct subsidies for its exports. Indirectly, however, Denmark has programs to assist export promotion, research and development, regional development and a limited number of preferential financing schemes aimed at increasing exports. All these programs, however, apply equally to foreign companies operating in and exporting from Denmark. The company tax on income from a permanent establishment abroad is reduced by 50 percent and this has proven to be an incentive for foreign firms, including some from the United States, to set up "regional headquarters" in Denmark. The most important recent change in the otherwise nominal Danish tax incentives relating to exports is a change in employers' social contributions, which effective from January 1, 1988 shifted from a contribution for each employee to a 2.5 percent tax on the VAT turnover. As exports are exempted from VAT, the new system de facto constitutes an indirect export subsidy. Importers, who normally have a large VAT turnover relative to the number of employees, are hit hard by the new system, forcing them to either absorb these extra costs or add them to their prices.

4. Debt Management Policies

Although Denmark belongs among the richest countries in the world, its foreign debt has reached a level (40 percent of GDP) which compares to that of many LDC debtor nations. Because of its economic standing, Denmark so far has had no problems in obtaining new loans to finance its recurrent deficits, but the servicing of the debt remains the major obstacle to an improvement in the Danish balance-of-payments. Since the present Government took office in 1982, the balance-of-payments deficit has been exclusively a function of the interest payments on the foreign debt. The Government has set a goal to attain equilibrium on the Danish balance-of-payments by 1992, which will require not only a continued improvement in competitiveness for Danish exports but also an increased role for the private export sector in the economy and a reduction in the public sector's role.

5. Significant Barriers to U.S. Exports and Investment

As the European Community's market integration proceeds, many if not all of the existing Danish barriers to both commodity and services trade will be harmonized with those of the other EC countries. Although the characteristics of the trade barriers may not change radically as a result of the harmonization, the creation of a large, single Community market with a population of 320 million versus the present Danish market with 5 million people should increase the opportunities for U.S. exporters to exploit both the Danish and other EC markets more effectively than they can today. Present Danish product standards are to a large extent based on international and EC standards, but in some areas Denmark applies stricter criteria, particularly concerning food, environmental protection, building and construction, telecommunications and working conditions,. A listing of current Danish barriers to both services and commodity trade follows.

Enhanced telecommunication text and data services (VANS) were liberalized in 1988. However, resale of access to leased lines for data traffic remains restricted to five percent of the traffic between the company providing the service and its individual customer. The VANS area will be further deregulated as new common EC regulations are adopted. Danish standards for telecommunications equipment have so far been set by the Danish Post and Telegraph (PTT), after consultation with either the state-owned or concessioned telecommunications entities. Although based in general on European and international standards, Danish standards in some instances include requirements that go beyond the "prevention of harm to the network" approach taken by the United States. The setting of European telecommunication standards (NETS) is now performed by the newly-established European Telecommunications Standards Institute (ETSI). To what extent ETSI will provide access for, among others, U.S. parties to influence the drafting of those standards remains an open question. After November 30, 1989 only the first telephone handset, PABXs, and internal wiring will remain monopoly items of the telecommunications entities. This equipment will be liberalized on July 1, 1990, and thereafter all telecommunication equipment may be sold freely provided it has a Danish or other EC member approval.

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If the EC fails to adopt environment standards having the same high level of protection as the Danish standards, Denmark is likely to retain its present standards. As an example of the importance Denmark attaches to environmental protection, the Ministry of Environment in March 1989 decided to implement on October 1, 1990 (far in advance of the deadline set by the EC) U.S. standards for reducing automobile pollution via the use of catalytic converters. The additional costs of such anti-pollution equipment will be exempted from the very high automobile registration tax.

The Danish mandatory return bottle system for beer and soft drinks was endorsed in a ruling by the EC Court of Justice in 1988, sustaining Danish arguments about the system's positive environmental effects and rejecting the EC Commission's arguments that the system distorts trade. Although the Danish ban on marketing of beer and soft drinks in cans or other disposable containers was also included in the case, the EC court did not deal specifically with this issue in its ruling; indications are that the EC Commission will not raise it again. The return bottle system and the ban on cans have effectively precluded foreign beer and soft drink producers (including those from the U.S.) from exporting to Denmark. Instead a number of the leading U.S. producers, including Coca-Cola, Pepsi, and Budweiser, have entered into licensing agreements with Danish producers. As a result of the EC Court's ruling, one could speculate on a scenario which ultimately could trigger the establishment of a mandatory EC-wide return bottle system while meeting EC single market harmonization objectives and.

A change effective in 1987 to the 1984 Danish Credit Card Act has excluded foreign credit card companies from operating in Denmark on international terms, as the legislation prohibits any credit card company, whether foreign or domestic, from charging vendors for costs related to the use of credit or charge cards held by Danes. As a consequence, American Express has stopped issuing credit cards to Danes for use in Denmark.

Danish and Greenlandic maritime cabotage provisions which have been in place for many years have proved to be of very limited importance to U.S. shipping interests. Cabotage provisions based on licensing requirements for land transportation and aviation effectively restrict any foreign penetration.

Outstanding issues in the aviation field are at present a matter of bilateral negotiations between U.S. and Scandinavian authorities. The Scandinavian countries (read the Scandinavian national carrier SAS) are worried over the increased penetration of the Scandinavian market by U.S. carriers, which has created a much more competitive environment than formerly. As a consequence, SAS's share of the U.S.-Scandinavia traffic has declined from almost 80 percent in 1986 to about 50 percent in 1989.

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Danish barriers to foreign direct investment are limited to arms production, hydrocarbon exploration, aircraft ownership, and the financial sector. The present ban on foreign participation in Danish arms production is likely to be liberalized in the near future, probably allowing for a 40 percent equity participation, but only a 20 percent controlling interest. There is mandatory government participation on a carried basis in connection with Danish hydrocarbon exploration activities and on a non-carried basis in the exploitation phase. However, responding to the relaxation of license terms in other North Sea countries, the Danish terms, including government participation, for the third hydrocarbon licensing round in early 1989 were also relaxed. Of the 31 companies applying for licences, seven were U.S. companies. The licenses will be granted shortly.

Foreign citizens or airlines may not directly own or exercise control over aircraft registered in Denmark and operation of scheduled flights to, from, and within Denmark requires a permit from the Minister of Transport. However, the requirement for a permit does not preclude foreign minority portfolio investment in Danish air carriers.

Denmark as a general rule applies a reciprocity test in relation to foreign direct investment in the Danish financial sector, but so far this has not been a major obstacle to prospective foreign financial sector entities. When established in Denmark, a foreign-owned financial sector investor receives national treatment. The present Danish financial sector legislation will be amended pending the adoption of EC directives. Thus, the rules governing foreign access to the Danish financial sector are dependent in great part on what is decided in Brussels prior to 1993.

Local content requirements are only imposed on companies applying for export credit insurance or guarantees and the minimum local content is normally about 60 percent. Export performance requirements are indirectly imposed on companies applying for certain types of preferential investment loans which, however, are only available to a limited extent.

Danish work permit rules applicable to foreign citizens, except those from the EC or Nordic countries, distinguish between standard laborers and managerial, technical and administrative staff and are also influenced by whether employment involves a foreign subsidiary or a Danish company. Work permits for standard laborers are virtually impossible to obtain due to restrictive labor market tests, while work permits for managerial jobs in a foreign subsidiary, which are not subject to a labor market test, in general are granted freely. In addition, the lack of international harmonization of "certified or compulsory skills" remains an obstacle to freer trans-border labor flows. Although significant harmonization of labor market regulations is a major item on the EC's market integration agenda, Denmark opposes the EC Commission's ideas of EC competency over the entire labor policy area.

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The only examples of the Government requiring offset deals concern military purchases, including the procurement of the F-16 military airplane from the United States. The Government's Government Procurement Directorate (GDP, under the Ministry of Finance) negotiates umbrella agreements for general office supplies and services which stipulate which suppliers must be used and which should receive special preferences. These agreements contain names of qualified suppliers, but are not purchasing contracts in that they do not stipulate or guarantee the individual supplier a certain amount of sales. The umbrella agreements run between one and three years each. In that period the agreement is generally closed to new "entrants". Procurement under the umbrella agreements amounted to two billion kroner in 1988.

When the EC Commission's proposed directives covering government procurement in the excluded sectors, i.e. water, energy, transportation, and telecommunications, are eventually adopted, the GPD is expected to increase sharply its coordinating role. The new directives will increase significantly the value of public procurement subject to public tendering, but the directives' value-added-criteria of at least 50 percent EC content in foreign bids appears to be the major obstacle to U.S. exploitation of an expanded public procurement market.

6. Export Subsidies Policies

Denmark has no direct subsidies for exports. However, the Government indirectly supports a number of programs aimed at increasing exports:

- the Government normally covers between 40 and 50 percent of approved export promotion costs;

- preferential financing of shipowners' purchase of ships built at Danish shipyards under programs to assist the shipbuilding industry has also, in some instances, supported export of ships, but the large majority of contracting has been by Danish shipowners. As a consequence, however, the support to Danish shipowners has improved the competitive position of the Danish commercial fleet, of which 90 percent operate in cross-trade. The creation in 1988 of the Danish International Ships' Register, which exempts crews from paying Danish income taxes and thus reduces shipowners' wage costs, has also improved the Danish commercial fleet's competitiveness;

- the shift in employers' social contribution from a per-employee contribution to a 2.5 percent tax on the VAT turnover constitutes a de facto indirect export subsidy as exports are exempted from VAT.

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7. Protection of U.S. Intellectual Property

Denmark is a party to the Berne Copyright, Paris Industrial Property, and Universal Copyright Conventions, as well as the Patent Cooperation Treaty.

Intellectual property is adequately protected and U.S. business and inventors are entitled to receive national treatment in Denmark. Videocassette and computer game piracy, formerly a serious problem, now constitutes less than five percent of the market.

8. Worker Rights

a. The Right of Association

All workers, including military personnel and the police, have the right to associate freely in unions of their choosing. Some 90 percent of Danish wage earners belong to unions. All but civil servants have the right to strike. Trade unions operate freely domestically and internationally without government interference. Greenland and the Faroe Islands, autonomous islands within the Danish realm, have the same respect for worker rights, including full freedom of association.

b. The Right to Organize and Bargain Collectively

Workers and employers acknowledge each other's right to organize. Collective bargaining is widespread. Salaries, benefits, and working conditions are agreed on in biennial negotiations between the Employers Association and the Confederation of Labor Unions, which has 1.4 million members (half of Denmark's labor force), and are used as guidelines by the rest of the labor market. In case of disagreement, an issue may be referred to a labor court made up of representatives of management and labor and an independent member. The decisions of the court are binding. Labor legislation and practices are uniform throughout Denmark and its territories.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited and does not exist

d. Minimum Age for Employment of Children

The minimum age for full-time employment is 15. Children under 15 may perform light work not exceeding two hours daily. The law details specific limitations to work which may be done by children 15 to 18. The law is rigorously enforced.

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e. Acceptable Conditions of Work

By international standards, Danish law sets high minimum standards for conditions of work, including safety and health. The law prescribes: general duties of employers, supervisors, and employees; performance of work, rest periods and rest days; medical examinations; five weeks' guaranteed vacation per year and sick pay and maternity pay, including maternity leave (two weeks for the father and up to 24 weeks for the mother). A labor inspection service ensures compliance with work environment legislation. There is no minimum wage, but the lowest hourly wage set in any national labor negotiation is approximately $9.00. The present workweek, 37.5 hours, will be reduced to 37 hours in late 1990.

Similar conditions of work are found in Greenland and the Faroe Islands, except that their workweek remains at 40 hours and that there is no publicly supported unemployment insurance available. Unemployment benefits in both places are either contained in the labor contract agreements and/or form part of the general social security system.

f. Rights in Sectors with U.S. Investment

Worker right conditions are equally applied in all goods and service producing sectors in Denmark.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		265
Food & Kindred Products	164	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	2	
Electric & Electronic Equipment	7	
Transportation Equipment	(*)	
Other Manufacturing	38	
Wholesale Trade		513
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

FINLAND

Key Economic Indicators

(Billions of finnmarks (Fmk) unless otherwise indicated)

	1987	1988	1989
Income, Production and employment			
Real GDP (1985 = 100)	355.7	374.1	391.0
Real GDP growth rate (pct)	4.0	5.2	4.5
GDP by sector			
Agriculture	9.3	9.3	10
Forestry	10.5	11.6	13
Industry	79.3	82.5	84
Utilities	9.5	9.7	10
Construction	23.1	25.1	27
Communications	25.8	27.5	29
Commerce	38.9	41.1	43
Financial services	13.9	15.0	17
Government services	52.7	54.0	56
Misc services	61.3	64.4	66
Indirect taxes, less subsidies and bank service charges	31.4	34.0	36
Real per capita income	72.1	75.6	78.7
Labor force (000s)	2,554	2,546	2,556
Unemployment rate (pct)	5.1	4.5	3.5
Money and Prices			
Money supply (M1)	30.3	35.2	44.0
Commercial interest rates 1/	10.02	9.97	12.5
Savings rate, households (pct GDP)	3.5	-0.1	0.0
Investment rate (pct of GDP)	23.8	24.8	27.0
Consumer price index (1985 = 100)	107.1	112.6	120.0
Wholesale price index (1985 = 100)	99.7	102.2	107.3
Official exch rate ($1.00/Fmk)	4.404	4.191	4.300
Balance of Payments and Trade			
Total exports FOB	85.5	92.9	101.5
Exports to U.S. FOB	4.4	5.4	5.9
Total imports CIF	82.8	92.1	103.2
Imports from U.S.	4.3	5.8	6.5
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External public debt (central and local govts)	29.2	26.8	24.0
Annual debt service payments	14.2	14.6	15.5
Gold and forex reserves			
Convertible and nonconvertible Reserves of the Bank of Finland	28.6	29.5	25.5
Balance of payments			
Current account deficit	(7.9)	(12.6)	(20)

1/ 3-month Helibor-rate. Helibor (Helsinki interbank offered rate) is Finland's commercial banking reference rate.

FINLAND

1. General Policy Framework

The Finnish economy is a booming, market economy, still enjoying one of the highest rates of growth among members of the Organization for Economic Cooperation and Development (OECD). In terms of per capita GNP, Finland ranks tenth in the OECD, passing West Germany last year. The country's only major natural resource, forests, provided the original basis for industrial development and is still an important sector. Other manufacturing fields, principally metal engineering (including shipbuilding), are the main engines of economic growth. Industry has increasingly expanded into high technology fields, especially electronics. Finland is a world leader in such products as cellular telephones and display electronics. As in other modern post-industrial economies, the service sector is growing, now accounting for 60 percent of total GDP. Finland provides an extensive system of social services for its citizens, including unemployment benefits, education, and health care. Personal income taxes are correspondingly high, but still lag behind Swedish and Danish levels.

Although, the Government plays a significant role in this mixed economy, 80 percent of manufacturing capacity and 90 percent of banking services are privately owned. Seventy percent of the service sector is in private hands. Finnish industrial policy has two aims: facilitating industrial structural adjustment in response to market forces, and; improving Finnish external competitiveness through investment in human resources, not through industrial targeting or production subsidization. An important exception is the agricultural sector, which receives substantial support aimed at retarding urban migration and maintaining self-sufficiency in food production. An industrial exception first arose in 1988 and sharpened in 1989 in response to a crisis in Finland's shipbuilding sector. Limited interest rate subsidies were made available for domestic deliveries and some exports of Finnish-built vessels, a policy response to heavily subsidized EC competition. The direction of this policy is in question because of the bankruptcy of the country's largest shipbuilder in October 1989.

Fiscal Policy: During the past three years, Finnish economic policy has been formulated with a view towards venting steam from the country's overheated economy. Towards this end, the national budget has been drafted to exert fiscal drag on rampant domestic demand. Real government spending in 1990 will increase only 2.5 percent, with a deficit of 0.7 percent of GDP. The Government is using heavy cash flows from the brisk economy and higher indirect taxes aimed at slowing consumption to reduce its net foreign debt and has cut back domestic borrowing, traditionally the main source of deficit financing.

Finnish business has an ostensibly light tax burden which compensates for the extremely heavy load of employers' social welfare contributions. In addition to favorable depreciation rules, such provisions as the operation allowance, tax-deferred investment reserves and research and development allowance reduce the effective corporate tax rate to only a few percent of operating income. As part of regional policy, tax policy is also used to achieve regional development objectives for investment in remote locations and to discourage development in Helsinki.

Monetary Policy: The Finnish monetary authority, the Bank of Finland, elected to adopt a fixed exchange rate regime in 1986, concomitantly with extensive deregulation of domestic money markets and relaxation of capital controls. The result is an open economy where interest rate policy is subordinated to supporting the exchange rate policy; i.e., monetary policy has only limited use as an economic policy tool. To dampen domestic economic activity and to finance a growing current account deficit, the Bank of Finland has maintained a positive interest rate differential with world money markets, resorting to increases in commercial bank cash reserve requirements and open market interventions to keep domestic money markets tight. Additionally, the Bank raised its "base" interest rate in October 1988. The base rate's main significance is that it serves as a reference for most consumer loans, mortgages, and savings accounts. High Finnish interest rates have attracted capital from abroad, with official currency reserves peaking at Fmk 30 billion in mid-1988 and dropping somewhat to Fmk 22 billion a year later.

2. Exchange Rate Policies

The value of the Finnish mark is determined by a trade weighted basket of foreign currencies. The finnmark may fluctuate within a range of 4.5 percentage points and the Cabinet must approve any change outside that range. The Bank of Finland pursues a fixed-rate policy to keep the finnmark stable. Strong capital flows have pushed the finnmark upwards against the U.S. dollar, a favorable development for U.S. exporters. The relaxation of foreign exchange regulations has eliminated most currency controls. Effective June 1, 1989, only direct investments by private individuals and investments in countries with which Finland maintains payments agreements require authorization by the central bank. Controls retained over private individuals were for taxation reasons and will be relaxed further by July 1, 1990. With Sweden's decision in 1989 to abandon currency controls, Finland is under pressure to press forward with financial liberalization and do likewise.

3. Structural Policies

The Finnish Government has pursued a policy of "controlled" structural adjustment aimed at facilitating industrial reorganization and increasing competitiveness. These reforms have been mostly market-oriented and include partial privatization of state-owned industries, labor market and tax structure reforms, and termination of price controls (in 1988). These measures are complemented by gradual reductions in budgetary and tax support for the farm sector, and a commitment to phase out export subsidies. The primary loser, with employment implications for up to 20,000 workers, would be the country's major shipbuilder, Wartsila Marine,.

The Government is also addressing the problems presented by the GATT Uruguay Round and the European Community's 1992 process, with implications for agricultural market access and subsidization. Until now, the Government has refrained from more than token industrial subsidization and has been unwilling to consider direct income support as a replacement for heavy production support for the nation's farmers. The structural challenge of the 1990s is Finland's adaptation to the process of European integration. Currently, both government and industry have worked willingly towards accommodation to ensure Finnish access to the EC's single market. Political pressures will build over the social and labor aspects of pan-European integration as competition heats up for sheltered Finnish economic sectors.

4. Debt Management Policies

The Republic of Finland is a Triple-A borrower. Net external debt in 1989 was 17.1 percent of GDP and the net debt service-to-export earnings ratio was 13.9 percent. An active member of the IMF and the World Bank, Finland recently concluded a framework agreement with the IBRD for co-financing of projects in LDCs. Finland is a member of the Paris Club as a creditor country, and has an exceptional record of repaying its foreign obligations. There are no adverse implications for U.S. trade of Finnish debt management policies.

5. Significant Barriers to U.S. Exports and Investment

Import Licensing: Finland uses import licenses and seasonal tariffs to protect its heavily subsidized domestic farm sector. U.S. products are not treated any differently than other foreign agricultural producers and are actively sold here. The purpose of the licensing system, which is a relic of the post-war forced industrialization years when Finland regulated all imports and exports, is to ensure that domestic supplies are used up before competing foreign products are imported. The Government made a decision in principle in October 1989 to eliminate licenses and quotas for some agricultural commodities during 1990 through tariffication. Import of coal is also subject to licensing to allow the Government to direct purchases to specific countries. First priority is usually given to Eastern bloc suppliers, especially Poland. The United States is a residual supplier of coal, and shortfalls in COMECON production have resulted in significant, if unpredictable, sales in some years. Finland enjoys certain licensing benefits under Section 5(k) of the U.S. Export Administration Act.

Services Barriers: At the present time, U.S. companies operate at a disadvantage in banking and related financial services, insurance, tourism and telecommunications while financial market restrictions have eased to permit the establishment of banking subsidiaries and the acquisition of limited interests in indigenous commercial banks, foreign banks may not enter as branches of their parents, or acquire control of an indigenous bank (without special permission).

In the insurance sector, market reservations policies prohibit foreign companies from providing life, pension and automobile policies. The entry of a U.S. subsidiary in 1988 was the first new foreign insurer in decades, and reflected the intent of the Government to increase competition, at least in corporate and international insurance business. Official policy reserves telecommunications and tourism to state-owned companies and Finnish nationals, respectively.

Standards, Testing, Labeling, and Certification: Finland is a signatory to the GATT Standards Code and is moving to harmonize its technical standards with EC norms, an action which should aid U.S. exporters. The United States is disputing with Finland over its prohibition, on the grounds of nematode infestation, of the import of softwood chips.

Investment: Foreigners are restricted from investing in mineral extraction and forestry industries, and are partially restricted from investing in shipping, other transportation, forwarding, publishing, securities brokering, and auditing activities. Furthermore, the state has reserved for state-owned companies postal and telegraph services (excluding telephone), production and sale of alcohol, and petroleum refining. In addition, non-residents of the Finnish Aland Islands must receive special approval to obtain fixed property and conduct business in the Islands.

Unless waived by the Ministry of Trade and Industry, foreign ownership of voting stock is limited to 20 percent of all limited liability companies in Finland. Foreigners may own up to 40 percent of share capital, however foreign control of real estate, either directly or through a business entity, is restricted. Foreign acquisition of real estate or a lease for a period longer than two years requires the permission of the Council of State, which is obtained through the Ministry of Trade and Industry or the Ministry of the Interior.

Government Procurement: Finland is a signatory to the GATT Government Procurement Code. Countertrade and 'buy national' provisions apply only to GATT-excluded sectors of defense and transportation. Competitive bidding is the rule in Finland.

Customs Procedures: Finland's customs procedures are streamlined, reflecting the importance of foreign trade.

6. Export Subsidies Policy

The only significant direct export subsidies are for agricultural products (grain, meat, butter, cheese, and eggs). They are being cut back through managed reductions of exportable surpluses, with eventual total elimination. In 1988 and 1989, a limited program of interest rate subsidies was begun to aid sales of Finnish ships facing subsidized EC competition. Industry "K" guarantees were made available in the 1970s to protect long-term delivery contracts for exports of metal engineering products against high inflation. Because of prevailing low inflation and structural adjustment within the Finnish shipbuilding sector, the former major user of the fee-based guarantees, the system currently has negligible use.

7. Protection of U.S. Intellectual Property

Finland is a signatory to all significant intellectual property rights conventions.

Finnish patent and trademark laws are similar to those of other Nordic countries, with one notable exception. Finland is one of the last developed countries to deny patents to pharmaceutical products. Legislation in 1987, however, initiated a transition period to product protection, which will be available in 1990. The first product patent medicines will probably not not be available until the year 2000.

8. Workers Rights

a. The Right of Association

Trade unions are constitutionally guaranteed the right to organize, assemble peacefully, and strike--rights which are respected in practice. They enjoy a protected status and play an important role in political and economic life. A one-million-member blue-collar confederation, the Central Organization of Finnish Trade Unions (SAK), dominates the trade union movement. Three other central organizations cover white-collar, professional and technical employees. All trade unions are democratically organized and managed and are independent of the Government. Most unions maintain relations with their Nordic counterparts and participate in the ILO. The four confederations also have bilateral contacts with the Soviet All-Union Central Council of Trade Unions.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively exists in law and practice and is exercised extensively. Finland is a highly organized society in which more than eighty percent of both workers and employers are members of trade unions and employers' collective bargaining associations. With very few exceptions, all collective agreements since 1968 have been based on incomes policy agreements. Workers are protected against anti-union discrimination and organization is encouraged in all sectors of the economy.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor.

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d. Minimum Age of Employment of Children

While the minimum age for employment in Finland is 18, there are some paid training/apprenticeship programs starting at 16. There is compulsory education legislation in Finland.

e. Acceptable Conditions of Work

There is no legislated minimum wage in Finland although all employers--including non-unionized employers--are required to meet the minimum wages agreed to in collective bargaining agreements in their industrial sector. The collective agreements cover the general level of wage and salary increases, other terms of employment, and a "social policy package" which provides for vacation, holidays, maternity and paternity leave, sick pay, travel costs, taxes, rents etc. The standard legal workweek must not exceed 40 hours.

f. Rights in Sectors with U.S. Investment

A miniscule amount of U.S. direct investment is found in goods producing firms in the chemicals and related products and electric and electronics equipment sectors. The bulk of U.S. investment is in the wholesale, banking and finance sectors. In all industries Finland consistently follows international labor standards and rights. In the goods producing sectors Finland upholds all of the internationally-recognized workers rights.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		29
Food & Kindred Products	0	
Chemicals & Allied Products	4	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		331
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

FRANCE

Key Economic Indicators

(Billions of French francs (FF) unless otherwise noted)

	1987	1988	1989 1/	
Income, Production and Employment				
Real GDP	3,158.2	3,262.4	3,360.3	
Real GDP growth (pct)	2.2	3.3	3.3	
Manufacturing (pct)	-0.9	4.4	n/a	
Agriculture (pct)	2.3	0.1	n/a	
Services (pct)	3.1	4.0	n/a	
Real per capita income growth (pct)	1.4	3.1	n/a	
Labor force (millions)	23.8	23.9	n/a	
Unemployment rate (pct)	10.3	9.8	9.5	2/
Money and Prices				
Money supply (M1)	1,397.0	1,455.6	1,521.6	2/
Bank lending rate (pct)	9.60	9.25	10.50	3/
Savings rate (hsehlds)(pct)	11.5	12.2	12.3	
Investment rate (cos)(pct)	4.5	10.4	n/a	
Consumer price index (yr-end)	3.1	3.1	2.5	
Wholesale price index 4/	n/a	n/a	n/a	
Exchange rate (FF/$)	6.01	5.96	n/a	
Balance of Payments and Trade				
Total exports FOB	888.9	997.6	n/a	
Exports to U.S.	62.4	70.6	n/a	
Total imports FOB	920.4	1,030.4	n/a	
Imports from U.S. CIF	67.7	81.4	n/a	
Balance (FOB-FOB)	-31.5	-32.8	-40.0	
External public debt	3.6	2.7	n/a	
Gold (FF mils)	223.5	206.1	200.6	5/
Forex reserves (FF mils)	377.6	361.1	372.4	5/
Current account balance	-26.7	-21.3	-5.0	6/

1/ 1989 figures are government forecasts except as noted below:
2/ August 1989 figure
3/ October 1989 figure
4/ France does not report comparable statistics
5/ Outstanding amount as of August 1989
6/ First seven month cumulative figure

1. General Policy Framework

France is the fourth largest industrial economy, with a GDP of approximately $940 billion in 1988, about one-fifth the size of the U.S. economy. As a member of the European Economic Community (EC), imports into France are subject to the EC's common external tariff and to the restrictions of its common agricultural policy. In addition, as the EC puts in place its ambitious program to remove all barriers to the free internal circulation of goods, services, labor, and capital by the end of 1992, national competence in a growing number of economic areas, including certain aspects of investment and services policy, would transfer to the EC.

France has a centuries-old tradition of highly centralized administrative and governmental control of its essentially market economy, including: five-year plans, a big nationalized industrial sector, and reliance on industrial subsidies and credit control. Government influence over the economy was further extended in 1981-1982 with additional nationalizations, particularly in the banking sector. In the course of the last six years, however, the Government (both socialist and center-right) has reversed course, accepting a reduced involvement in the economy in favor of market forces as the best way to turn around the sluggish French economy and reduce the high unemployment rate.

To this end, the Government implemented a comprehensive program of market-oriented reform and deregulation: eliminating the majority of price controls and all exchange controls; reducing subsidies; modernizing French financial markets, particularly the stock exchange; reducing taxes; and cutting the budget deficit. Under the center-right government (1986-1988) this trend accelerated, with the privatization of 31 industrial and financial companies. The socialist government, which returned to power in May/June 1988, ended the privatization program, but has not re-nationalized any of the privatized firms. Several of the largest French banks, most of the major insurance companies, the utilities, and many of the largest industrial concerns remain state-owned.

Cutting the deficit, containing expenditure growth, and easing the tax burden have been the Government's principal budgetary priorities over the last few years. As a result of a restrictive expenditure policy--negative or slight real growth in overall spending between 1986 and 1988, including net reductions in public sector employment--the deficit as a percentage of GDP has dropped significantly. At the same time, between 1987 and 1988 taxes were reduced by some FF95 billion (from what would otherwise have been collected). The top income tax bracket of 65 percent was lowered to 56.8 percent in 1987, while the corporate tax rate dropped to 42 percent in 1988 from 45 percent. The tax rate on reinvested corporate profits was reduced to 39 percent in 1989 and is scheduled to decrease to 37 percent in 1990.

In preparation for the single European market, the Government has begun to bring its high valued-added tax (VAT) rates more in line with European norms and has made other tax changes to limit the degree to which French firms are fiscally disadvantaged (see Section 3). Despite tax reduction, an increase in social security contributions (levied primarily on individuals) to fund growing expenditures has resulted in an increase in the overall tax burden, which at almost 45 percent of GDP in 1988 is among the highest among member countries of the Organization of Economic Cooperation and Development (OECD). The Government's modest budget deficit is financed by issuing government bonds at a weekly auction.

Until 1985, the Government relied almost solely on quantitative credit controls to manage money supply. Since then, it has adopted a more flexible policy relying on open market operations and reserve requirements. The Government engages in weekly re-purchase operations at a fixed rate to regulate the supply of liquidity available to the banking sector. The official government intervention rates serve as benchmarks for other money market rates. Over the last few years, France has pursued a neutral or even restrictive monetary policy, as an integral part of its efforts to bring inflation under control.

Real interest rates in France are high compared to some of its principal trading partners, as the substantial decline in inflation has not been matched by declines in nominal rates. When market conditions have been favorable, the Government has given priority to reducing official interest rates in order to boost economic activity and promote employment. However, consistent with its anti-inflationary policy, the Government's strong franc policy enjoys precedence and the Government has not hesitated to raise interest rates to defend the franc within the exchange rate mechanism of the European Monetary System (EMS), of which France is a member. (The objective of the EMS is to stabilize exchange rates among member currencies, whose fluctuations against each other are limited to plus or minus 2.25 percent.)

2. Exchange Rate Policies

The foreign currency value of the French franc is determined by international market forces, within the constraints of the fixed, but adjustable, exchange rate system of the EMS, by macroeconomic policy actions, or by central bank interventions. These actions are usually concerted with those of other governments, both within the EMS and as part of broader international economic policy coordination efforts among industrialized countries, including the United States. France abolished remaining residual exchange controls on January 1, 1990. This is the first time (with the exception of two short periods in the late 1960s) that there have been no exchange controls.

3. Structural Policies

While putting off comprehensive tax reform, the Government has begun fine-tuning its tax code to achieve its priorities: investment, job creation and competitive French companies in the context of the European single market.

Recent budgets have incorporated a number of tax incentives to help achieve these objectives including:

- a lower rate on reinvested profits;
- tax exemption for establishment of new companies;
- tax credits for hiring and training new workers; and
- reductions in the professional tax rate and the tax on the transfer of corporate assets.

Various taxes on financial institutions are also slated to be abolished or reduced. As part of the EC single market exercise member governments are negotiating the harmonization of VAT rates. With some of the highest rates in the EC, the Government has begun to reduce and consolidate VAT rates. French VAT rates currently range from a low of 5.5 percent to a high of 25 percent for "luxury" goods, with the standard rate at 18.6 percent.

4. Debt Management Policies

France's debt management policy is not a significant element in French economic policy and performance.

5. Significant Barriers to U.S. Exports and Investment

U.S. companies sometimes complain of complex technical standards in France and of lengthy testing procedures. Testing usually must be done in France, and standards sometimes appear to go beyond reasonable requirements needed to insure performance and safety. Complaints have been loudest concerning electronics, telecommunications equipment, medical/veterinary equipment and products, and some agricultural phyto-sanitary standards.

French Government agencies and state-owned corporations not covered by the General Agreement on Tariffs and Trade (GATT) Government Procurement Code have traditionally followed strong "buy national" policies. Government agencies covered by the Code generally follow its provisions but make use of the non-competitive, single tendering exceptions. Although the value of Code-covered procurement has increased, the incidence of U. S. company complaints and unreasonably short bid deadlines has remained high. The EC is formulating new EC-wide regulations concerning government procurement in services and in the sectors still excluded from the Government Procurement Code (energy, water, telecommunications, transport), and cinema and television. French regulations specify minimum percentages of television broadcast time and cinema showings that must be devoted to French or European productions. Recently the French Government has toughened enforcement of these regulations, especially as concerns prime time television broadcasts. The market share of U.S. films and television shows remains high, however.

France maintains no review or prior notification requirements on foreign investment in new economic activities. France does require prior approval of proposed foreign investments of over FF10 million in existing activities. In deciding whether to give such approval, the Government of France often seeks commitments from investors regarding their future conduct of the activity and can delay approval indefinitely for non-EC investors. However, in early January 1990, the Government announced it would implement more liberal treatment of prospective foreign investors. Established investors from other EC countries will normally be given automatic approval and non-EC investors will have to undergo a one-month review period, with automatic approval at the end of that time if the application is not postponed "to preserve a national interest." The new procedures have yet to be tested in practice, however, and still fall short of either national most-favored nation or national treatment.

France does not maintain formal local content or performance requirements but has been an advocate within the EC of an 80 percent EC-local content rule for automobiles manufactured at Japanse-owned plants in the Community.

U.S. firms have suffered when the Government has occasionally intervened in investment decisions to implement its industrial policy and benefit French firms. In the last year, French authorities have intervened in several proposed or existing U.S. investments by imposing investment criteria, delaying the review of applications and attempting to line up alternative domestic investors.

6. Export Subsidy Policies

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding concessionality of foreign aid. The French Government maintains a foreign commercial service to promote French exports and to provide assistance to French businessmen abroad. The Government has begun examining ways to concentrate the benefits of it export promotion efforts more on small and medium-sized businesses.

7. Protection of U.S. Intellectual Property

France is a strong defender of intellectual property rights and an advocate of improving protection. It is a party to the Berne Copyright Convention, the Paris Convention on Industrial Property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on Trademarks.

Until 1984 French law did not provide for injunctive relief prior to final judgment in patent infringement disputes. An amendment to the patent law that year permitted judges to grant injunctive relief in cases where the patent holder manufactures the product in France. The French patent law permits a judge to grant a compulsory license in cases where a patent is not worked in France and where the patent holder has refused to license it there. In practice, French courts have been strict in their interpretation of this statute, and compulsory licenses have been granted in very few cases. A 1985 amendment to the French copyright law extended protection to computer software, although it limited protection to 25 years. It also improved the protection of video recordings.

8. Worker Rights *

a. The Right of Association

The Constitution guarantees the right of workers to form unions. Although union membership is declining, unions remain strong in both the private and public sectors. The French Government regularly consults labor leaders on economic and social issues.

b. The Right to Organize and Bargain Collectively

The principle of free collective bargaining was re-established after World War II and subsequent amendments in labor laws encourage collective bargaining at the national, regional, local and plant levels. French law prohibits antiunion discrimination.

c. Prohibition of Forced or Compulsory Labor

French law prohibits forced or compulsory labor.

d. Minimum age for Employment of Children

With the minor exception of recognized apprenticeship programs, , children under 16 may not be employed.

e. Acceptable Conditions of Work

France has a minimum wage of about $4.60 an hour. The standard work week is 39 hours, and overtime is controlled. In general terms, French labor legislation and practice, including that pertaining to occupational safety and health, are fully comparable to those in other industrialized market economies.

f. Rights in Sectors with U.S. Investment

France has no export processing zones, and labor law and practice are uniform throughout all industries of the private sector.

FRANCE

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		926
Total Manufacturing		8,047
Food & Kindred Products	293	
Chemicals & Allied Products	1,753	
Metals, Primary & Fabricated	155	
Machinery, except Electrical	3,023	
Electric & Electronic Equipment	230	
Transportation Equipment	456	
Other Manufacturing	2,114	
Wholesale Trade		2,377
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		11,350

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the France country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

GERMAN DEMOCRATIC REPUBLIC

Key Economic Indicators

(Billions of marks (EM) unless otherwise noted)

	1987	1988	1989 (proj)	
Income, Production, and Employment				
Produced national income 1/	252.2	268.4	276.5	
Real GDP	n/a	n/a	n/a	
PNI by sector				
Industry	174.4	180.7	n/a	
Construction	19.7	20.5	n/a	
Agriculture/forestry	30.0	27.4	n/a	
Transport/communication	14.3	15.0	n/a	
Commercial/retail	23.6	24.6	n/a	
Other	9.5	10.2	n/a	
Per capita income (EM)	15,696	16,000	16,650	
Employment (mils)	8.57	8.59	8.55	
Unemployment rate	0	0	0	
Money and Prices				
Money supply	15.014	15.613	n/a	
Commercial interest rates 2/	n/a	n/a	n/a	
Savings	141.8	151.6	n/a	
Gross investment 3/	71.2	77.0	n/a	
Retail price index (1970=100)	99.5	99.5	n/a	
Wholesale price index	n/a	n/a	n/a	
Exchange rate ($1.00/EM) 4/				
Official	1.80	1.69	1.90	
Balance of Payments and Trade				
Total exports (bils VM) 5/	89.9	90.2	n/a	
Exports to U.S. (mils $)	96.2	126.7	78.8	7/
Total imports (bils VM)	86.6	87.2	n/a	
Imports from U.S. (mils $)	53.9	109.2	45.9	7/
Aid from U.S. and others	n/a	n/a	n/a	
Gross debt (bils $)	18.59	19.0	18.5	8/
Net debt (bils $)	9.59	9.19	7.7	8/
Trade balance (bils VM)	3.24	3.0	3.7	6/

1/ PNI is the GDR macroeconomic aggregate most closely corresponding to GNP. It omits "nonproductive services and depreciation charges". Because of these omissions, as well as a presumption that GDR statistics are not inflation-adjusted fully, most analysts believe that real GNP growth is consistently lower than official PNI growth.

2/ The GDR has no capital market to equilibrate demand and supply of credit. However, see John E. Parsons, *Credit Contracts in the GDR: Decentralized Economics of Planning*, Vol. 20, No. 1, 1986, "Interest rates on industrial investments may vary in the GDR from the standard charge of five percent upward by eight percentage points and downward by 1.8 percentage points."

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3/ in constant 1985 prices

4/ The GDR mark (EM) is not convertible and no single exchange rate adequately reflects its value versus the deutschemark (DM). For the inner-German trade, 1 EM:1 DM. A recent study of the German Institute for Economic Research had 1 EM:0.98 DM in purchasing power, although lower nominal GDR incomes put real GDR income at 53 percent of the FRG. In western exchange facilities, roughly 10 EM:1 DM.

5/ The valuta mark (VM) is a GDR foreign trade accounting unit in which 4.5 VM is roughly equivalent to 1 transfer ruble. The relationship to the domestic mark of the GDR is not known.

6/ nine-month results.

7/ six months, U.S. Department of Commerce.

8/ Gross debt - debt with BIS banks supplier credits dollar value at OECD exchange rates of cumulative inner-German deficit. Net debt - gross debt less GDR positive balances with BIS banks. 1989 figures as of end-March.

1. General Policy Framework

During its 40-year history, the German Democratic Republic (GDR) developed into a highly industrialized country with the highest living standards in Eastern Europe. The GDR is relatively resource poor, however. Major natural resources include brown coal (lignite), potash, and uranium. Industry accounts for more than 80 percent of the GDR's produced national income (PNI). The GDR is largely self-sufficient in manufactured goods and is noted for its domestic capability in micro-electronics. Leading industrial sectors include steel, chemicals, general machinery and machine tools, electrical equipment, and precision engineering products. The GDR has also made progress in agriculture, boasting significant domestic production of basic food staples. The highly centralized, planned economy produced substantial growth through the early 1980s. However, since 1986, officially reported growth has failed to meet Plan objectives, slowing from 4.1 percent in 1986 to 3.0 in 1988. The outlook for 1989 was for a further easing of growth.

western analysts believe that actual economic growth is several percentage points below the official numbers. While acknowledging that significant differences in national income accounting hinder comparisons with the west, many western experts put the GDR's per capital GNP in the range of $8,000-$10,000, or roughly on a par with Spain.

The GDR entered a period of transition in mid-1989, focussing largely on political reforms, but also addressing fundamental economic reform as well. As economic growth has slowed to the point of stagnation, there is a general realization throughout the GDR that past policies must be abandoned to ensure future economic progress. GDR economists and political leaders have begun to debate openly the key problems of lagging productivity, declining population (some 340,000 GDR citizens emigrated during 1989), misdirected investment policy and flagging export competitiveness on world markets.

As elsewhere in Eastern Europe, the reform discussion in the GDR has called into question the Government's fundamental wage and price policies. The debate has focused on the efficacy of the Government's policy of heavy subsidies for basic foodstuffs, services, and housing to achieve broader social policy goals. At present, such subsidies claims some 18 percent of officially reported government outlays. The new government of Premier Hans Modrow has taken some small steps to begin reducing the subsidy program.

Lagging labor productivity--official overstatements aside--and negative demographic trends underlie the policy dilemma facing the GDR in the 1990s. The country's chronic, indeed worsening, labor shortages and the absence of true incentives for workers have combined to undercut the GDR's relative--for Council for Mutual Economic Assistance (CEMA) countries--economic success. The outflow of young workers in the course of 1989 has exacerbated the tight labor situation. The ongoing emigration wave of over 1,500 East German emigrants daily has ensured that the decline in the overall population will continue.

The total population has fallen from 18.4 million at the GDR's inception in 1949 to 16.6 million in 1989. In response, the Government has begun to look seriously at a broad wage reform to create meaningful work incentives and to give managers more independence in directing enterprise activity and in setting wage levels. In addition, the new regime is taking steps to open the GDR to foreign investment and the establishment of joint ventures.

2. Exchange Rate Policies

The GDR maintains a state monopoly on foreign trade activity and the use of foreign exchange. However, there are indications that this may be changing. In practical terms, this means that foreign exchange transactions are carried out on the basis of the State Plan, that the transactions are made through the State Bank and its subsidiaries, the German Foreign Trade Bank (DABA) or the German Commercial Bank, and that the import or export of the domestic GDR mark is forbidden. The GDR, like other centrally-planned economies, uses several price structures and units of account in the export and import of its products and services. It is difficult to be specific about these structures. The domestic mark of the GDR is not legally convertible. Furthermore, GDR foreign trade statistics are presented in terms of a statistical accounting creation--the valuta mark (VM). The relationship of the valuta mark to the domestic mark is a state secret. The system includes a multiplicity of de facto exchange rates that vary by product and transaction.

International prices are most apparent to the GDR domestic market on the import side where the state planning apparatus seeks to confront producers with international price developments. Foreign exchange coefficients may strongly mask the effect of world prices to the GDR exporter, however.

GDR international transactions are conducted in various forms. Within CEMA, sales and purchases are mostly conducted on the basis of the (nonconvertible) transferable ruble, using a five-year moving average of world prices. There is some, and possibly growing, trade in hard goods for above-plan deliveries. With other socialist partners, e.g., Yugoslavia and China, the GDR uses a mix of currencies, including clearing accounts and current world market prices. With the Federal Republic of Germany (FRG), Finland, and some developing countries, the GDR also conducts trade on a bilateral clearing basis.

Inner-German trade--which dominates GDR hard currency trade--is measured in accounting units (verrechnungseinheiten) which equate to one deutschemark mark. Trade with all other countries is conducted on the basis of freely convertible currencies, with the dollar playing an important role.

3. Structural Policies

Until recently, the GDR reacted slowly to the rapid changes underway in CEMA as a whole, and in such key bilateral trading partners as the Soviet Union, Poland and Hungary. Foreign trade decision-making remained very centralized, dominated by the Ministry of Foreign Trade, some 40 foreign trade organizations (FTOs) and a relatively small group of highly-integrated industrial combines (Kombinats).

The FTOs acted essentially on behalf of the state planning bureaucracy and negotiated contract terms, including countertrade, in the implementation of the broader export-import plan. Since 1988, kombinats and enterprises have had the power to retain a portion of their above-plan export earnings for use in obtaining needed capital goods imports, as determined by the kombinat or enterprise director. The impact of these measures on GDR trade is as yet unclear. In addition, significant changes in foreign trade regulations were started in mid-1989. These grant industrial ministries a say in foreign trade decisions involving their kombinats and enterprises and grant the directors of some kombinat and enterprises scope for dealing directly with western companies.

The highly centralized nature of the GDR's planned economy and foreign trade establishment means prices have played only a marginal role in foreign trade. Domestic prices--either for consumer goods or industrial products--were centrally set and often had little economic basis.

GERMAN DEMOCRATIC REPUBLIC

The complicated foreign exchange accounting mechanism also hinders direct linkages between external and internal prices. The GDR's system of bilateral clearing accounts with key partners--the Soviet Union and the Federal Republic of Germany dominate the GDR's trade with CEMA and western partners--further obfuscates foreign trade pricing issues.

4. Debt Management Policies

The GDR's reputation for prudent financial management underlies its strong international credit standing. Most western bankers consider the GDR to be the second best credit risk in CEMA, after the Soviet Union. The GDR's cautious response to Eastern Europe's financial difficulties in the early 1980s led it to rein in hard currency imports somewhat and to decrease net hard currency debt. A fair estimate of the GDR's debt position in early 1989--based largely on Bank for International Settlements (BIS) figures--would put net hard currency debt in the range of $7 to $8 billion, with some $18 billion in liabilities (the bulk owed to BIS reporting banks) offset by about almost $11 billion in assets held in BIS reporting banks. BIS figures from March 1989 suggest the GDR is highly liquid, with strong short-term assets and a healthy long-term debt profile.

5. Significant Barriers to U.S. Exports and Investment

At the present time, the GDR is undergoing a process of economic reform, with the introduction of some free market mechanisms within a centrally-planned economy. While the extent of the reforms are not yet clear, it appears that many of the past practices noted below have already changed or may well change in the next few months, resulting in increased opportunities for U.S. business.

The GDR does not levy customs duties or other taxes on commercial imports. In a state trading country such as the GDR, the level of trade for the given year is decreed by the State Planning Commission. Unless there is an unusual circumstance, like a crop failure that disrupts the premises underlying the annual economic plan, exporters will not sell more to the GDR in a given year than the central authorities have decided to import. The level of imports from any trade partner is heavily dependent upon the degree to which the GDR can export to that country. In the case of the United States, for example, GDR officials often complain that they are restricted in what they can buy, because they are not entitled to Most-Favored-Nation tariff treatment on the U.S. market. At a lower level of importance, there are several GDR impediments to increased American exports:

Access: While access to FTOs is generally open, nonresident U.S. firms find it difficult to reach end-user Kombinats or enterprises. Access is sometimes possible during the semi-annual Leipzig trade fairs. U.S. exporters can sometimes reach end-users with technical sales seminars through the auspices of a GDR commercial agency. Possibilities to conduct such seminars directly with end-users --independently of FTOs or agencies--are very limited, if not nonexistent. However, this may be in the process of changing.

Rent and Business Costs: U.S. companies desiring a representational office in the GDR (currently there are four) must apply for space in the International Trade Center (ITC). Rental costs for an office or technical sales seminar are quite steep--one recent survey asserted ITC costs to be the highest in Europe--and nearly prohibitive for new-to-market firms.

Data: The reliability of GDR commercial information and data is unsatisfactory when considered by type, quality and timeliness. GDR FTOs and Kombinats treat the most basic marketing information as secret. The GDR's statistical reporting system has not improved in recent years, although the recent openness in the GDR press could lead to the publication of fuller and more credible data on the GDR economy.

Investment: Although GDR law does not prohibit direct investment, GDR practice has, so far, precluded such activity by western firms. GDR firms have been successfully engaged in various forms of non-equity joint cooperation in the GDR with western and CEMA partners. GDR enterprises are involved in various forms of joint cooperation outside the GDR, including some joint-equity ventures with Soviet and western partners. The establishment of equity participation or other forms of joint ventures with western firms or organizations on the territory of the GDR has only recently been enacted.

Others: GDR firms tend to be inflexible in adapting the quantity or quality of their products to western market conditions. This inflexibility restricts the ability of the GDR to sell abroad and has limited the ability of western firms, including U.S. companies, to sell to the GDR. U.S. businessmen sometimes complain of customs and visa problems. Commercial agents in the GDR are usually required--by practice, but not by law--for a western firm to make a sale. Foreign businessmen complain that the agents do not provide services commensurate with the fee. The GDR imposes fees for technical and quality inspection for the goods.

6. Export Subsidies Policy

It is possible that, in some sense, the GDR subsidizes exports. western analysts assume that, buried in the portion of the budget that is not made public, are receipts and expenses to cover the difference between the world and domestic price of internationally traded commodities. Such a mechanism must exist in order to finance the complicated system of foreign exchange coefficients described above. In the 1988 budget of the GDR, for example, unaccounted for are 16.8 percent of expenditures and 11.3 percent of receipts.

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The calculation of a subsidy element on any specific commodity is made difficult by the meaningless nature of domestic prices in terms of demand and costs, particularly in the absence of any markets to equilibrate these forces. U.S. investigations conducted under the antidumping statute, e.g., on liquid fertilizer, required such heroic assumptions about wage costs and exchange rates that it was not possible to generalize these results to other GDR export products.

7. Protection of U.S. Intellectual Property

The German Democratic Republic is a party to the Berne Copyright and Universal Copyright Conventions and the Paris Convention for the Protection of Industrial Property.

U.S. nationals are entitled to receive the same treatment under the GDR's patent, trademark, and industrial design laws as the GDR extends to its own citizens (national treatment). Like the United States, the GDR has adhered to the revision of the Paris Convention adopted at Stockholm in 1967.

The GDR patent law contains penal provisions for willful patent infringement, in addition to civil sanctions, so that deliberate commercial patent infringement is rare in the GDR. Parties to an infringement dispute usually settle the question amicably and regard recourse to the courts as a last resort. Only one intellectual property complaint by a U.S. firm, made in 1986, is known. The firm complained that filing and maintenance fees for a full-term (18-year) patent were among the most expensive in the world and provided little protection.

8. Worker Rights *

a. The Right of Association

Workers do not have the right to establish and join unions of their own choosing. The Free German Trade Union (FDGB) is an appendage of the SED which, until recently, represented some 90 percent of the work force. All large industrial and retail enterprises--which employ some 85 percent of the labor force--are owned by the state. Workers do not have the constitutional right to strike.

b. The Right to Organize and Bargain Collectively

There is currently no legal provision for collective bargaining, nor does it exist in practice. Labor law and practice are uniform throughout the GDR.

c. Prohibition of Forced or Compulsory Labor

Forced labor is not practiced in the GDR.

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d. Minimum Age for Employment of Children

Children from 14 may work par time during vacations and to further their education. Children between 14 and 18 can work full time with parental permission. Youths under 18 may not work at night. Youth commissions effectively enforce the child labor laws.

e. Acceptable Conditions of Work

Under the law, a full-time worker is entitled to a minimum wage of approximately $216 per month. The GDR guarantees citizens the right to a job, and there is essentially no unemployment. Labor law obliges enterprises to protect employees' health and safety in the workplace. In reality, however, working conditions are often difficult.

f. Rights in Sectors with U.S. Investment

U.S. capital is not invested in the GDR.

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* Section 8 is an abridged version of Section 6 of the German Democratic Republic country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

FEDERAL REPUBLIC OF GERMANY

Key Economic Indicators

(Billions of deutschemarks (DM)

Income, Production and Employment	1987	1988	1989 (est)	
Real GNP (1980 prices)	1,641.9	1,701.8	1,769.9	
Real GNP growth rate (pct)	1.7	3.6	4.0	
GDP by sector (1980 prices)				
Agric/forestry/fishing	33.4	35.6	n/a	
Manufact/mining/construction	630.8	656.0	n/a	
Trade/transportation	261.0	270.7	n/a	
Services	437.6	457.4	n/a	
General govt/households	222.2	225.4	n/a	
Real GNP per capita income (DM)	26,875	27,708	28,592	
Civilian labor force (mils)	29.4	29.5	29.7	
Unemployment rate (dependent employees-yrly avg pct)	8.9	8.7	8.0	
Money and Prices				
Money supply (M1)	385.2	427.0	407.9	1/
Commercial interest rate (Dec) (credits of DM1 to DM5 mil)	6.46	6.94	8.48	
Savings rate	13.6	13.9	13.0	
Investment rate (pct nominal GNP)	19.3	19.8	21.0	
Consumer price index (1980=100)	121.0	122.4	126.1	
Wholesale price index (1980=100)	104.7	105.8	111.2	2/
Exchange rate (ann avg/$)	1.7982	1.7584	1.90	
Balance of Payments and Trade				
Total exports FOB	527.4	567.7	658.2	
Exports to U.S.	49.9	45.7	n/a	
Total imports CIF	409.6	439.6	507.9	
Imports from U.S.	25.6	29.1	n/a	
External public debt	176.7	183.2	185.0	3/
Annual debt service payments 4/	58.2	60.1	61.5	
Gold and forex reserves	82.0	63.9	70.3	5/
Balance of payments				
Current account	81.2	85.3	110.0	
Capital account	-41.3	-120.9	-76.6	6/

1/ as of July
2/ January-September
3/ as of June
4/ Total public sector debt service payments for external and domestic debts; adjusted for double-counting among different levels of government.
5/ as of September
6/ January-August

FEDERAL REPUBLIC OF GERMANY

1. General Policy Framework

Until the end of the decade, real economic growth in the Federal Republic of Germany (FRG) had slowed considerably during the 1980s in comparison with the previous three decades. From 1980 to 1987 real GNP growth averaged 1.5 percent annually compared with an average growth rate of 7.9 percent in the 1950s, 4.6 percent in the 1960s and 2.8 percent in the 1970s. In the last two years, growth has turned out to be rather robust. In 1988 mild winter weather helped improve growth, partially driven by a buoyant construction sector. Further impetus from strong export growth pushed the year's growth average to 3.6 percent. For 1989 real growth was around 4.0 percent, as export growth and equipment investment continued to drive the economy.

Strong export performance coupled with relatively weaker domestic demand growth meant a record trade surplus of DM128 billion in 1988. Preliminary results for 1989 indicate a surplus in the DM140 billion range . Inflation picked up at the beginning of 1989, primarily the result of government-implemented excise taxes and higher energy prices. The consumer price index has risen at a moderate 3 percent rate, on average, over the previous year's level. As this level is high by German standards, it is causing concern among FRG policy makers.

The German federal budget deficit was DM36 billion in 1988. It is expected to be significantly lower in 1989 at DM25 billion as a result of excise tax increases, healthy revenues due to good growth, and the absence of any income tax reductions. One of the key elements of the Kohl Government's fiscal policy has been a three-stage tax reform package implemented in the 1986-1998 period. The first two stages consisted of net personal tax relief of DM11 billion in 1986 and DM14 billion in 1988. In the final stage, gross tax relief of DM38 billion took effect on January 1, 1990. To offset a portion of these revenue losses, an estimated DM14 billion will be raised by cutting back on tax preferences. Thus, net tax relief in 1990 will amount to about DM24 billion.

The Bundesbank (Central Bank) has continued applying a tighter monetary policy in 1989. The Bank has raised its key discount and Lombard interest rates in several steps to 6 percent and 8 percent on October 5, 1989, from 3 and 4.5 percent respectively in July 1988. As reasons for the tightening, the Bundesbank has cited concern for inflationary pressures in the economy as well as the relative weakness in the deutschemark vis-a-vis the U.S. dollar. The target for broad money supply (M3) growth is set at "about" 5 percent for 1989. Since late spring M3 growth rate has been broadly consistent with this target.

In recent years a number of changes have been implemented in the money and capital markets in an attempt to enhance the attractiveness of West Germany as an international financial center. Nevertheless, the development of a money market and a deeper equities market have been stifled by a securities transactions tax, which is one of the most important remaining impediments in German securities markets. the Government announced in October 1989 that both the transactions tax and the gesellschaftssteur, or company tax -- a tax on firms' new securities issues -- would be abolished on January 1, 1991.

2. Exchange Rate Policies

The deutschemark is a freely convertible currency and the Government does not maintain exchange controls. The FRG participates in the exchange rate mechanism of the European Monetary System and is a member of the Group of Seven industrial countries' coordinating group.

3. Structural Policies

The major trade unions have established the 35-hour work week as a goal for the 1990 round of contract negotiations. Government, industry, trade association, and other opinion leaders have cautioned against such a move at this time. Many German industries are experiencing capacity utilization rates of close to 90 percent, production bottlenecks are presently occurring due to shortages of labor in critical skills, and the unions are holding fast in their refusal to permit weekend shifts except under extraordinary circumstances. If unions could be persuaded to participate in recent economic growth by taking additional income as opposed to leisure, the increase in disposable income may have a significant effect on domestic demand. The unions have consistently stuck to their preference for leisure over income, however.

More than 700,000 re-settlers from East Germany and ethnic German emigrants from the Soviet Union and other East bloc countries arrived in 1989. The FRG labor market has thus far been successful in absorbing the re-settlers from East Germany, but most of the ethnic German emigrants require extensive language and/or occupational training. Despite this influx, FRG unemployment, although higher at year end, declined on average for 1989 to 7.1 percent.

Post and telecommunications reform should result in greater competition. The FRG Ministry of Post and Telecommunications has spun-off a number of activities into public corporations that will compete with private entitites in the future.

4. Debt Management Policies

Except for 1979, 1980, and 1981, the FRG has had a positive current account balance in every year since 1970. Thus, the FRG is a major net creditor.

FEDERAL REPUBLIC OF GERMANY

5. Significant Barriers to U.S. Exports and Investment

FRG government officials frequently emphasize that an economy dependent upon exports cannot erect barriers to trade. In its aerospace (Airbus), agricultural, and telecom policies, among others, however, the FRG has clearly discriminated against imports. Some non-tariff trade restrictions also exist, and are defended in a variety of ways, such as alleging their importance for correcting regional economic disparities.

Germany asserts that the European broadcast directive, recently approved by the European Commission with Bonn's support, is non-binding, and that the creation of additional private broadcast facilities may well lead to more U.S.-origin programming in the future. On other EC directives, e.g., financial services, the FRG has generally been a force for liberalization.

The FRG offers a relatively open climate for foreign direct investment. Limitations to such openness include restrictions on investment in the domestic air and maritime transportation sectors. In adition, branches of foreign-controlled corporations in the tourism sector are excluded from receiving certain financial assistance and guarantees. Also, certain types of banking business can be conducted only by subsidiary companies, not branches of foreign credit institutions.

6. Export Subsidy Policy

FRG agricultural subsidies are subsumed under EC policy. Subsidies for German industries -- such as coal, civilian aviation, and even the automotive industry -- are defended on the grounds that they are simply incidental means toward promoting regional development. The EC has begun to force member states to scale back some these subsidies, however. Recent estimates place total subsidies (appropriations and tax-preferences) at between 6 and 7 percent of GDP, although with the exceptions of agricultural subsidies and subsidies for the civilian aviation industry, the effects on exports are not significant.

7. Protection of Intellectual Property

The Federal Republic is a party to the principal intellectual property accords, including the Berne, Paris, Brussels Satellite and the Universal Copyright Conventions, as well as to the Patent Cooperation Treaty.

Intellectual property is generally well protected in the FRG. Both U.S. citizens and firms are entitled to national treatment, i.e., FRG law does not differentiate among nationalities in protecting registered property. Responsibility for protection of intellectual property is the responsibility of three agencies: the German Patent Bureau, the Verwertungsgesellschaft (concerned with printed material), and GEMA, the German quasi-equivalent to ASCAP (the American Society of Composers, Authors, and Publishers).

The only notable shortcoming in FRG protection of intellectual property affecting U.S. exporters has been in the area of video cassette piracy. A motion picture trade association estimates that up to 25 percent of video sales in the FRG may be pirated copies. Lost sales due to piracy are estimated at $30 million per year. The German film distributors' association has taken the lead in working with the German Government to improve enforcement of existing copyright law.

In April 1989 the governing coalition introduced a bill in Parliament calling for stronger intellectual property protection. The bill was favorably reported out of the Bundestag's economic policy committee and will likely be passed into law without further substantial change.

8. Worker Rights *

a. The Right of Association

The right of association is guaranteed by the basic law, or Constitution of the FRG and is fully observed.

b. The Right to Organize and Bargain Collectively

The right to organize is also guaranteed by law and a strong tradition of autonomous labor-management bargaining exists. Collective agreements are legally binding.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited.

d. Minimum Age for the Employment of Children

The FRG has strict laws governing the employment of children, generally defined as those under 15. There are limited exemptions for children employed on family farms, delivering newspapers, or involved in theatrical or sporting events.

e. Acceptable Conditions of Work

Worker safety and benefits standards are equal to the highest found among EC members and are set by both law and collective agreement.

f. Rights in Sectors with U.S. Investment

The FRG's high standards, outlined above, apply to all goods producing sectors in which there is U.S. investment.

FEDERAL REPUBLIC OF GERMANY

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		2,043
Total Manufacturing		14,200
Food & Kindred Products	854	
Chemicals & Allied Products	1,377	
Metals, Primary & Fabricated	523	
Machinery, except Electrical	4,074	
Electric & Electronic Equipment	601	
Transportation Equipment	3,927	
Other Manufacturing	2,843	
Wholesale Trade		1,114
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		17,357

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Federal Republic of Germany country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

GREECE

Key Economic Indicators

(Billions of drachmas (Dr) unless otherwise noted)

	1987	1988 (prelim)	1989 (proj)
Income, Production and Employment			
Real GDP (const 1970 mkt pcs)	509.6	529.8	542.0
Real GDP growth rate (pct)	-0.1	4.0	2.3
GDP (current mkt prices)	6,389.4	7,489.3	8,770.0
GDP (constant 1970 prices)			
Factor cost	452.7	471.9	482.8
Agriculture	58.4	62.0	61.8
Mining	8.1	9.0	7.8
Manufacturing	87.3	91.2	94.1
Electricity/gas/water	18.4	19.6	20.0
Construction	21.1	22.5	24.2
Services	259.4	267.6	274.9
Real per capita income (Dr) (const 1970 mkt prices)	50,433.0	52,533.0	59,580.0
Labor force (mils)	3.9	3.9	3.9
Unemployment rate (pct)	7.4	7.4	7.4
Money and Prices			
Money supply (M1) (pd-end)	1,046.5	1,202.3	1,420.0
Annual percentage change	18.9	20.0	19.0
Commercial interest rates (pct)			
Working capital lending rates	21.0	20-22.0	22-23.5
Savings interest rate (pct)	15.0	14.5	15.0
Investment int rate (pct) 1/	18.0	17-19	19-20
Consumer price index (yr-end) (1982 = 100)	256.9	295.9	343.0
Wholesale price index (yr-end) (1980 = 100)	337.9	379.8	435.0
Exchange rate ($1.00/Dr)			
Official annual average	139.954	141.861	164.000
End period	148.100	145.000	172.000
Parallel market	n/a	n/a	n/a
Balance of Payments and Trade (mils $)			
Total exports FOB 2/	5,613.6	5,933.6	6,200.0
Exports to U.S. 3/	442.0	238.2	44.1
Total imports CIF 2/	12,556.1	13,567.0	14,500.0
Imports from U.S. 3/	357.8	377.6	177.0
Aid from U.S.			
Aid from other countries			
External public debt 4/	18,562.3	17,740.0	18,000.0
Annual debt service	3,785.6	3,932.3	4,000.0
Gold & forex reserves-pd-end)	3,738.1	4,591.0	4,000.0
Gold (at 65 pct mkt value)	1,057.0	925.0	925.0
Foreign exchange	1,871.0	2,843.0	2,300.0
ECU holdings 5/	711.0	681.0	620.0
Forex position with IMF	99.0	95.0	110.0
SDRs	-	47.0	45.0
Current account deficit	-1,703.9	- 957.1	-1,800.0

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Notes:

1/ interest rate on long-term loans to industry
2/ settlement basis
3/ Greek customs data
4/ includes supplier credits
5/ holding of European Currency Units issued by the European Monetary Coordination Fund

Sources: Bank of Greece, National Statistical Service of Greece, and Embassy estimates.

1. General Policy Framework

In 1981 Greece entered the European Community (EC) and immediately afterwards elected a Socialist Government. With the rationale of redressing social injustices, the new government expanded spending on social welfare programs, increased public sector employment, enlarged the public enterprises, and raised the general wage level significantly. The economic result was stagflation. GNP growth between 1979 and 1986 hovered around one percent per year, less than half the OECD average. Balance-of-payments deficits led to increased foreign borrowing; the external debt reached 44 percent of GDP in 1987, up from 13 percent in 1979. Increasing deficits in the Government of Greece's budget expenditures and in the public enterprises' balance sheets led to sharp increases in the public sector borrowing requirements (PSBR), which then crowded out the private sector. Inflation during the 1979-86 period, at over 21 percent on average, was three to four times higher than the OECD average.

In the mid-1980s Greece implemented a stabilization program with some, limited, success. Through fiscal incentives and grants Greece hoped to encourage both domestic and foreign investment. However, during 1988 it eased its incomes policy for the public sector and permitted the private sector, within government guidelines, to negotiate wages. That relaxation, plus the untaxed income of the flourishing parallel economy, enabled consumption and imports to rise. Inflation, as a result, has continued to be high. The current account deficit declined in 1988 as a result of stronger invisible inflows and positive real interest rates which stemmed the outflow of capital, but rose sharply in 1989.

Moreover, Greece did not reduce the size of the bureaucracy, the deficit on social welfare expenditures, the extent of the public enterprises, or consequently the public sector deficit. Greece relaxed further its policy stance during the first half of 1989 in anticipation of the June 1989 elections. The net PSBR reached 22 percent of GDP in 1989, up from 14.4 percent in 1988.

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Budget deficits have been financed primarily through the issuance of treasury bills, in which, by law, banks must invest 38 percent of their deposits. Since 1985, the state has been issuing securities of up to two-year terms at attractive rates of interest as well as ECU-denominated bonds. Monetary policy has been used to accommodate Greece's fiscal needs. Greece has traditionally allocated credit through the Bank of Greece by the application of specific reserve requirements for different credit tranches. Interest rates for various categories of borrowers and savers are dictated. Highly bureaucratic exchange controls reinforce the system. However, prodded by EC strictures, Greece has been moving towards more market-oriented credit allocation, with interest rates set for certain sectors by the market.

Tax collection is a central problem for any government in Greece. Tax evasion is normal and widespread. Moreover, the existence of a parallel economy, frequently estimated to be as large as one-third of the open economy, facilitates tax evasion and also explains the high level of imports and consumption compared to the official per capita income. The introduction of a value-added tax system (VAT) in conformity with EC norms in January 1987 was significant in inhibiting tax evasion and increasing tax collection. All political parties accept the need for urgent renovation of the tax system.

The end of 1989 found the Greek economy in a transitional and difficult phase. Greece must prepare itself to face the challenge of 1992 within the European Community. It also has to address its large fiscal and current account deficits. The interim government that took office in June 1989 was able to agree on the extent of Greece's problems, but it left the development of a policy redressing the economy to the all-party coalition government formed after the November 1989 elections. All the parties recognize that structural reforms are badly needed. A new round of parliamentary elections is expected in spring 1990; the resulting government will be faced with resolution of the remaining problems. Until the economy is stabilized, Greece may be forced to borrow abroad, not only to cover its increasing current account deficit, but also to finance its huge public sector deficit.

2. Exchange Rate Policies

The exchange rate of the Greek drachma is managed by the Bank of Greece through a daily rate fixing meeting at Bank headquarters with the banks operating in Greece. After the 15 percent devaluation of October 1985, Greece announced, with a view to halting speculative capital outflows and maintaining competitiveness, that the real exchange rate would be kept stable, with relative unit labor costs used as the key indicator of competitiveness. Aided by a decline in real wages in 1986 and 1987, the Bank managed to limit the drachma's devaluation against a basket of foreign currencies to under 10 percent annually. Setting and adhering to broad exchange rate targets had a dampening impact on inflationary pressures, but it eroded the competitiveness of the economy. The increase in 1987 and 1988 of non-debt capital inflows and the tripling of Greek reserves has given the Bank more leeway in managing the drachma's parity. It is not now clear that the relative unit labor cost remains the key factor in the Bank's management of the exchange rate. The Bank of Greece is openly against an outright devaluation of the drachma, and it opts instead for a continuation of the present policies of controlled gradual depreciation.

Foreign exchange controls have been progressively relaxed since 1985. The European Commission has required Greece to liberalize capital inflows and outflows for residents of other EC member states, and Greece on its own initiative has liberalized restrictions on third country investors (see Section 5). Full freedom of capital movement is provided for investments in stocks and government bonds and repatriation of the original capital investment on new third-country investments in real estate is now allowed. Greek residents are now permited relatively realistic amounts of foreign exchange for travel, but investments outside of Greece by individuals and companies are strictly controlled, except in the case where a Greek export company invests outside Greece in warehouses or other facilities which would promote its business activities abroad. Portfolio investments by Greek residents in other EC countries were to have been freed in November 1988, but with the permission of the European Commission such investments remained subject to the approval of the Ministry of National Economy through the end of 1989.

3. Structural Policies

The demand for imports from the United States has suffered from the stabilization measures, but more significant in the decline of U.S. import share has been Greece's increasing orientation towards its internal EC market. However, the depreciation of the U.S. dollar compared to the principal European currencies in 1987 and 1988 has begun to stimulate some increase in imports from the United States.

Tight government control of prices has been gradually relaxed and sometimes replaced by guideline agreements with relevant industrial and commercial associations. However, about one-fourth of the goods and services included in the consumer price index are produced by government-controlled companies. Moreover, government agencies and public enterprises in areas such as electricity, telephone services and transport provide services at less than market prices.

Greece is harmonizing its regulatory controls in accordance with EC directives, but it maintains some of its own regulations, particularly regarding agricultural imports, that constitute barriers to U.S. exports. It also has an approval process for foreign investment, specifically when a merger or takeover is involved, that can be time-consuming, cumbersome and difficult. Greece does not maintain any overt requirements for exports of a foreign investment's production, but such commitments are encouraged. Government policies and incentives encourage regional development, high technology investments, and job creation.

4. External Debt Management Policies

At the end of 1988 Greece's external debt was $20.56 billion. Debt servicing as a percentage of exports was 66.3 percent, while as a percentage of GDP it was 7.4 percent. Greece has a bulge in its debt servicing demands in the 1991-1993 period. To reduce the expected burden, the Bank of Greece in 1987 made an early repayment of $430 million on loans due beyond 1987. About two-thirds of Greece's external debt is in currencies other than the dollar. Greece's external debt is expected to grow somewhat in 1989 due to the higher current account deficit which may not be fully covered by the non-debt private capital inflows. Greece has always been a responsible debtor. It has never delayed servicing on its debts and has good relations with its commercial bankers and the international financial institutions. It has not had an adjustment program with the IMF or the World Bank. In 1985, when it might have had need for such a program, it turned instead to the European Community for funding.

5. Significant Barriers to U.S. Exports and Investment

Services Barriers

Accounting: The audits of all banks, insurance companies, governmental organizations, companies listed on the Athens stock exchange, and companies with assets over 400 million drachmas must be performed by the government-controlled body of the Greek Sworn Accountants (SOL). Auditors are salaried employees of SOL. If they leave the body, they automatically lose their professional certification and their right to conduct statutory audit examinations. International accounting firms are not allowed to join SOL. Multinational companies must meet the additional expense of keeping two sets of books, one which meets SOL standards, and the other which meets international accounting standards.

Insurance: Rules governing establishment of insurance companies and the sale of insurance in Greece are also being harmonized with EC insurance directives. The present system has insurance companies and banks linked in such a way as to restrict competition, but Greece's full acceptance of the EC directives on insurance is expected to change this situation, at least for companies established in one of the EC member states. Following a long dispute with the European Commission, the Government has now sent to Parliament a bill which would undo the previous requirement that all government agencies insure only with state-controlled insurance companies.

Audio and Visual Works: The Greek Government assists local film producers by using the proceeds of a box office admission tax, ranging from 6 percent to 12 percent of net ticket prices, to subsidize the production and promotion of Greek films. It gives producers subsidies, cash prizes, and loans through the Hellenic Industrial Development Bank. The Government establishes a maximum price, presently $20,000, if a flat rate is charged for the rental of a film. If the price of the film rental is established on the basis of a percentage of the admission receipts, there are no restrictions.

Franchising: Domestic labor laws require that labor placements of any kind be made through the appropriate Office of the Official Employment Agency (OAED) rather than through a private organization. This creates a barrier to temporary help-employment franchises. However, hiring of employees may be done without the intervention of OAED, provided that OAED is notified within 8 days of such hiring or, in the case of newly-established firms, within 30 days.

Air Transportation: Government ownership of the national airline, Olympic Airways, guarantees it indirect subsidies through periodic increases in capital by the Greek Government and through government-backed loans. U.S. carriers are not allowed to sell ground services to other airlines.

Investment Barriers

Foreign investment is excluded from government-controlled sectors such as railways, air transport, telecommunications, energy and radio/television. The minerals sector is open to foreign capital, but under government supervision and usually for large projects with a majority equity participation by a Greek citizen or the Government. In the case of shipping companies and Greek banks, majority ownership cannot be held by foreigners. Growing attention to environmental protection, energy conservation, industrial, mineral and energy research and technological advancement is reflected in the extension of preferential grant rates (15 percent above normal) to investments in these sectors. Foreign investments involving purchase of real estate in border regions may be restricted. Non-EC foreign-controlled companies are generally restricted to 40 percent of the capital of a bank established in Greece.

Generally, Greek investment performance requirements are not implemented by specific laws or regulations, but rather are negotiated informally with an investor in the drafting of the respective instrument of approval governing his investment project. U.S. investors believe that both local content and export requirements are elements which are taken seriously into consideration by the Greek authorities in evaluating investment proposals, but they are not legally mandatory prerequisites for the approval of an investment.

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Greece's accession to the EC has led to the adjustment of Greek practice to conform to Community directives on the free movement of capital. After investors in EC member countries complained that a differentiation in treatment of "old" and "new" investment was discriminatory, the Government issued Presidential Decree 207 (June 19, 1987), which made the law retroactive to include EC-investors' transactions made after Greece's full accession to the EC on January 1, 1981.

The Bank of Greece has liberalized repatriation rights for imported capital used in productive direct investment, and the after-tax earnings therefrom, by third-country (non-EC member) investors. The rights granted to third-country investors differ qualitatively from those granted to EC investors, in that (a) only direct investment capital, not portfolio or real estate investment, is covered, and (b) principal can be repatriated only after it has been in Greece for three years.

Government Procurement Practices

"Buy National" Laws: Greek Government agencies and state-owned enterprises favor domestic producers when granting procurement contracts. The preference is from 10 to 35 percent in favor of the domestic producer. However, this only applies in the event that a domestic producer of the item exists, which is often not the case in Greece. A new Greek Government procurement code is currently pending in Parliament. Details have not been made public, but officials state that it will bring Greece into line with the European Community's Government Procurement Code.

Local Content/Offsets Requirements: Under Greek policy, offsets, while not mandatory except in defense-related contracts, are encouraged. The Government expects offsets to accompany bids on tenders worth over 250 million drachmas ($1.6 million). The real impact of Greece's buy-national policy is felt in the offset policy where local content, joint ventures, and other transfers of technology are stressed.

Other Government Procurement Concerns: The EC signed the GATT Government Procurement Code on behalf of all member states. When Greece joined the EC in 1981, the Government Procurement Committee decided that the Code would not apply to Greece until it negotiated an entity list acceptable to all signatories. To date, Greece has not initiated this process.

6. Export Subsidies Policies

January 1, 1987, the effective start of the value-added tax (VAT), also marked the beginning of the gradual abolishment of two Greek export subsidies. Rebates of indirect taxes were reduced by 40-55 percent as of January 1, 1987 and will be completely phased out by 1990 for exports within the EC and by 1992 for exports to third countries. Rebates on export loan interest was abolished by the end of 1987. The Office of Export Promotion (OPE) provides subsides for trade shows and other promotional activities.

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7. Protection of U.S. Intellectual Property

Greece is a party to the Paris Convention for the Protection of Industrial Property, the European Patent Convention, and the Berne Copyright Convention and is a member of the World Intellectual Property Organization.

As a European Community member, Greece must ensure that its law accord with EC Commission directives. The Government says that it will comply fully with its obligations to apply EC standards domestically on intellectual property protection.

Nevertheless, the United States has placed Greece, along with 16 other trading partners, on the "Watch List" for failure to protect U.S. intellectual property rights, under the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act. Greek officials say that they are willing to enter into bilateral discussions.

Patents: Law 1733/87 of January 1988 harmonizes Greek law with that of the European Patent Convention. Patents are protected for 20 years. Law 1733/87 excludes protection for methods of treatment and diagnosis and for nonmicrobiological processes used to obtain plants and animals. Greek officials say that this is consistent with Articles 52.4 and 53.1b of the Munich Treaty.

Copyrights: Greek officials admit that national copyright law needs extensive revision and that it does not adequately protect software. Since December 1988, a Ministry of Justice working group has been drafting revisions in the law to protect software. However, Greece does not agree with U.S. claims that software is "effectively excluded" from protection. Greek officials note that Greek Law 2387/192 provides an exhaustive list of moral and physical persons sufficiently large and open to interpretation to allow protection for creators of software and data bases.

The biggest bilateral copyright case involves extensive pirating of the Encyclopedia Britannica by a Greek publishing firm. The Britannica describes this as the worst pirating that they have seen outside of Taiwan but has yet to obtain satisfactory resolution of its case. The Court has required the pirate firm to post a $667,000 bond to guarantee against future damages, but has not issued an injunction barring sales of their encyclopedia. The case might take six to eight years to resolve through the courts.

Trademarks: Extensive videotape piracy has not been dealt with by Greek courts. Punishments for piracy are generally mild, and local courts vary significantly in how seriously they treat piracy. There is not a judicial tradition in Greece of following precedent. U.S. industry claims that 30 percent of cassettes sold in Athens and Thessaloniki and about 80 percent sold in the rest of Greece are pirated. Greek officials agree there is a problem, but disagree with the U.S. industry's figures.

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Greek law is in harmony with EC law. Foreign trademarks, whether registered in the country of origin or protected as common law trademarks, can be registered in Greece without submission of a home registration certificate or other evidence of ownership. Foreign trademarks may be registered in Greece as Greek trademarks independently of prior registration abroad. Protection is granted for an initial period of 10 years, renewable for an unlimited number of subsequent 10-year periods. However, there is no trademark protection for services. Revision of EC trademark law, to which Greece will subscribe, and the establishment of a European court of first instance may help to relieve the situation.

8. Worker Rights *

a. Right of Association

All workers except the military and police are entitled to form or join unions of their choosing. The right of association is provided for in the Constitution and in legislation passed in 1978 and amended in 1982. Unions are highly politicized, with competing unions linked to political parties, but they are not controlled by the parties or the Government in their day-to-day operations. There are no constraints on serving as a union official, and Greek unions are not restricted wih regard to making international contacts or joining international trade union organizations.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively was embodied in legislation passed in 1955. Antiunion discrimination is prohibited, and complaints of discrimination against union members or organizers may be referred to the Labor Inspectorate or to the courts. Litigation is lengthy and expensive, and penalties to employers are seldom severe. There are no restrictions on collective bargaining for private workers, though social welfare benefits are legislated by Parliament rather than won through bargaining. Civil servants negotiate their demands with the Ministry of Interior and have no formal system of collective bargaining.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is strictly prohibited by the Greek Constitution and is not practiced.

d. Minimum Age of Employment for Children

The minimum age for work in industry is 15, although legislation and regulations provide for higher minimum ages for work in specified areas or specific jobs.

GREECE

e. Acceptable Conditions of Work

Minimum standards of occupational health and safety are provided for by legislation. Although the Greek General Confederation of Labor (GSEE) has characterized health and safety legislation as satisfactory, it has also charged that enforcement of the legislation is inadequate.

f. Rights in Sectors with U.S. Investment

Although labor-management relations and overall working conditions within foreign business enterprises may be among the more progressive in Greece, worker rights do not vary according to the nationality of the company, plant, or project.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category		Amount
Petroleum		43
Total Manufacturing		107
Food & Kindred Products	(D)	
Chemicals & Allied Products	65	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	9	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		33
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		183

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, *Survey of Current Business* August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Greece country report included in the Department of State's *Country Reports on Human Rights Practices for 1989*, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

HUNGARY

Key Economic Indicators

(Billions of dollars unless noted otherwise)

	1987	1988	1989 (est)
Income, Production, and Employment			
GDP (current prices)	24.0	23.9	24.6
Real GDP growth (pct)	104.1	99.9	103.0
GDP by sectors (pct share)			
Industry	36.3	36.5	36.6
Construction	8.3	6.6	6.0
Agriculture/forestry	17.0	18.4	18.7
Transport/telecomm	8.5	9.1	9.3
Trade	11.5	10.5	10.0
Water management	1.6	1.5	1.5
Other resource activity	1.2	1.3	1.4
Services	15.6	16.1	16.5
Income per capita (forints)	76,100	87,600	104,000
Labor force (mils)	4.885	4.845	4.814
Registered unemployed	n/a	11,000	25,000
Money and Prices			
Money supply (M1) (bils forints)			
Savings rate	n/a	n/a	n/a
Investment (bils forints)	295.1	290.75	331.46
Consumer price index	108.5	115.7	117
Wholesale price index	n/a	n/a	n/a
Exchange rate (HF/$1.00)	46.98	50.42	59.50
Balance of Trade			
Total exports FOB	5.014	6.3	7.0
Exports to U.S.	.255	.321	.36
Total imports	5.011	5.63	6.30
Imports from U.S.	.095	.078	.10
Aid from U.S. (mils $)	0	0	.50
External debt in convertible currencies			
Gross (bils $)	17.75	17.34	17.1
Net (bils $)	11.113	11.07	11.05
Debt service (mils $)	3.390	3.058	3.05
Gold & forex reserves			
Current account balance in convertible currencies	(.85)	(.59)	(1.20)

1. General Policy Framework

In 1968, long before General Secretary Gorbachev's introduction of perestroika in the Soviet Union, Hungary launched a set of reforms to improve economic performance and development. Notwithstanding periodic setbacks, this process has been evolving for more than twenty years and has helped Hungary achieve a level of economic decentralization, private initiative, market orientation and social pluralism which today serve as models for other centrally-planned economies. Foreign trade, divided approximately evenly between the Council for Mutual Economic Assistance (CEMA) ruble countries and convertible currency markets, accounts for over half of GDP.

Yet despite reform efforts, economic results in 1988 and 1989 have remained disappointing. Gross domestic product - 63 percent of which passes through the central budget--stagnated, and government deficits greatly exceeded projections. In spite of a rosy trade picture in 1989, Hungary, because of growing debt service payments and still overvalued currency, faced expanding hard currency current account deficits, while CEMA trade surpluses grew despite hopes to re-orient trade to the West.

Inflation, running officially about 20 percent but considered by many to be higher, and the reduction of consumer subsidies with lowered living standards for some have become serious political issues. Unemployment may reach 200,000, up from the officially reported 25,000, if the Government implements its restructuring program. Profitability of state firms remains a particularly elusive goal; the number of enterprises operating in the red exceeds 500 and loss-making farms number over 100, yet only a small percentage of mostly smaller units have been closed. Subsidies to others, in spite of some cuts, remain stubbornly high. Debts between companies are estimated to total nearly $1.2 billion. In addition, Hungary's $20 billion gross hard currency debt is a constraint which will grow as medium and long-term debt matures and continued financing is needed to cover balance-of-payments shortfalls.

To address these problems, Hungarian officials hope to find the right mix of austerity and liberalization measures to balance internal and external accounts while encouraging industrial restructuring and transition to a market-oriented economy. Current reform efforts concentrate on removing restrictions on private business and entrepreneurship, encouraging the privatization of some state enterprises, and developing a modern banking sector and securities market. Through tax and investment incentives, the Government hopes for increased foreign investment and hard currency exports. In 1989 the Government also took steps to reduce import restrictions, wage and price controls, and some subsidies, a process which officials vow will continue.

In 1989 Hungary's leaders also stepped up the pace of political liberalization. Many observers believed that additional economic reform steps were likely to be postponed until after the multi-party Parliamentary elections expected in March 1990.

2. Exchange Rate Policies

The Hungarian forint is not freely convertible, although Hungarian officials have for several years noted their interest in convertibility as a long-term objective. The stated value of the Hungarian forint is tied to a basket of Western currencies, and exchange rates for 20 convertible currencies are quoted daily by the National Bank of Hungary. Basing adjustments on the differences between domestic and foreign rates of inflations, the Bank pursues an active foreign exchange rate policy--the forint was devalued three times in 1989, by a total of 23 percent. The black market rate of the forint tends to hover between 40 and 60 percent above the official rate, although reports of up to a 100 percent premium are not uncommon.

Forint exchange rates with currencies of other CEMA countries are based on multilateral or bilateral agreements and, with varying rates of inflation among CEMA members, have recently become a disputed subject. Most CEMA trade is accounted in so-called transferable rubles (TR), and the forint was revalued in September 1989 against the TR to address growing Hungarian trade surpluses with the Soviet Union. Hungarian and other CEMA economists are also discussing ways of basing bilateral trade on convertible currency, which economists hope will inject competitive forces into what has traditionally been a closed, protected market.

3. Structural Policies

With the emphasis in Hungary on joint ventures to promote exports, earn hard currency, and aid industrial restructuring, some of the more interesting structural changes over the last two years have occurred in the areas of enterprise organization and foreign investment. A new Law of Corporate Association approved by the Hungarian Parliament in October 1988 permitted new forms of ownership, including joint stock and limited liability firms, and a law of conversion passed in May 1989 set out conditions under which existing state firms may use these new forms. Privatization possibilities are likely to be strengthened by pending legislation. Other changes allow 100 percent foreign ownership and simplify registration requirements. Joint ventures in which the foreign share equals 20 percent are eligible for tax breaks and, in certain key sectors, five-year tax holidays. Joint ventures are also released from certain central wage and price regulations. Many other central regulations will be eliminated altogether from January 1990 when a major deregulation decree comes into force.

Although facing growing current account problems, Hungary began an import liberalization program in order to inject competition into the economy and allow profitable firms to obtain materials needed for restructuring or export production. In 1989, Hungary released 40 percent of all hard currency imports from licensing requirements, permitting any profitable firm to convert forints to hard currency to buy these products. Another 20 percent is slated to be liberalized in 1990. Customs duties were also reduced from an average of 50 percent to 30 percent and levied on the foreign purchase price rather than estimated (and usually higher) Hungarian sales prices, the earlier practice. To address the growing problem of hard currency flowing out of Hungary, however, the Government reduced duty-free consumer allowances as the number of Hungarians shopping in Austria increased and also made efforts to increase domestic supplies. In addition, in November 1989 the Minister of Finance announced changes which severely restrict Hungarian citizens' legal access to hard currency, which observers expect to put pressure on the black market rate.

The Hungarian value-added and personal income taxes date from January 1988. A 25 percent entrepreneurial tax on private activities was eliminated in January 1989 as part of the effort to make business taxes neutral rather than penalizing private efforts. In October 1989 the Parliament adjusted the legislation, reducing the overall business rate from 54 percent to 45 percent and lowering the highly progressive personal income tax brackets somewhat. A special additional 18 percent business tax came into force in January 1990 for state-owned firms, which is designed to act as a dividend for the use of state property.

4. Debt Management Policies

Hungary's hard currency debt totals nearly $20 billion, and its debt service payments are approximately 38 percent of hard currency earnings. Over 85 percent of combined foreign debt is now structured in medium and long-term loans, with an average maturity of seven years and a spread profile of under half a percent. This, along with prompt payment (even advance payment) of interest, has given Hungarian finance a much higher level of international investor confidence than indicators of Hungarian economic performance might suggest. In recent years Hungary has diversified its debt portfolio by increasing bond issues to supplement syndicated loans. Although central bankers rely on a growing number of purchasers, West Germany and, particularly, Japan hold the bulk of Hungary's debt. Except for short-term trade financing, U.S. banks have extremely limited exposure in Hungary.

Both publicly and privately, Hungarian officials remain committed to meeting Hungary's debt obligations without a rescheduling. Financing needs in the early 1990s are expected to exceed $3 billion annually, however, and continued investor confidence will be strongly affected by the Government's ability to bring its current account and budget deficits down from current levels. Central to this effort are dampening of domestic liquidity and living standards, continued increase in exports, and the Government's ability to reduce loss-making and subsidies in the country's industrial sectors. Most observers agree that renewed agreement with the IMF is critical both from a disciplinary perspective and to keep international lines of credit open. Hungary's previous $350 million one-year standby agreement expired in June 1989. Hungarian officials are said to be nearing the end of discussions with Fund representatives on conditions for renewal.

5. Significant Barriers to U.S. Exports

Hungary's ongoing trade liberalization program is reducing significantly the barriers to Western imports. Currently 40 percent of all convertible currency imports, consisting of machinery, agricultural products (such as fodder grain and seed) and some consumer goods, are free from licensing requirements, and another 20 percent will be liberalized in 1990. Enterprises may freely convert forint profits into convertible currency to buy these goods. For items not affected, Hungary's primary means of restricting imports is control of import licenses by the Ministry of Trade. This, in turn, is influenced by determinations of the Ministry of Finance and the National Bank as to hard currency availability for a given purpose at a given time. No special foreign exchange application is required, as an issued import license guarantees the availability of foreign currency for the trade. Except for consumer goods, which are subject to an annual quota of usually around $200 million, import licenses are granted on a first-come, first-served basis, with issuance based on balance-of-payments consideration. In customs-free zones, established since 1984, firms which deal exclusively with Western markets have unrestricted import rights.

In addition, Hungary excludes Western suppliers from trading in a wide range of raw material, commodities, reserved for CEMA partners and covered under CEMA bilateral trading agreements.

Until 1988, foreign trade was a state monopoly granted to specialized foreign trading organizations. Now, any company--state, cooperative or private--may receive general trading rights. The firm needs to register, rather than go through the previous lengthy application process, with the Ministry of Trade.

Because of the importance of foreign capital in Hungary's restructuring plans, neither investments nor services are subject to major restrictions. Foreign investments enjoy tax breaks and are released from some central regulations, and only those joint ventures with a majority foreign share must apply for permission from the Ministry of Finance, which favors most foreign investment. In services, foreign banks, airlines and other businesses may operate freely in Hungary. A new securities law came into force in January 1990 which formalizes the existing practice that foreign firms can participate in Hungary's stock and bond markets. Representation and service offices are no longer required to receive permission from the Ministry of Trade to open and now simply register. Joint ventures and even fully foreign-owned firms registered in Hungary are now able to purchase land.

One Hungarian-American brokerage firm is already registered, and American airlines, banks, courier and other services are all active. American joint ventures now total more than seventy.

Although customs laws themselves pose no significant barriers, local U.S. business officials have complained that customs officials' ignorance of regulations and lack of convenient customs facilities sometimes hinder business activities. Another barrier to increased U.S. exports is psychological. Many Hungarian firms have strong ties with Western European suppliers, particularly in the Federal Republic of Germany--Hungary's second largest trading partner--and are hesitant to disrupt these trade ties. In addition, many U.S. companies prefer to source Hungarian orders from their Western European subsidiaries. Finally, the time required to obtain U.S. export licenses often causes Hungarian firms to turn to other suppliers.

6. Export Subsidies Policies

To encourage hard currency exports, Hungary offers a complicated tax rebate scheme which effectively lowers the interest rates on some bank loans. If a firm wants to invest in technical development, market research, or restructuring/modernization efforts in order to increase hard currency exports, it can apply in a bidding process to the Ministry of Trade for these tax breaks. If approved, Hungarian commercial banks automatically grant the loan at market interest rates (currently 22-24 percent). The firm may then deduct one-third of the interest payments directly from its profit taxes. Lossmaking firms thus reap no benefit. Until January 1989, this program (existing since 1987) was available only to state firms and cooperatives. Now any enterprise may apply, and 300 of the 500 businesses who received the tax credits in 1989 are private. According to Ministry of Trade officials, Hungary has phased out preferential customs treatment for exporters as the Government implemented the import liberalization program which began in 1989.

7. Protection of U.S. Intellectual Property

Hungary is a member of the World Intellectual Property Organization and is a party to the Berne, Paris, and Universal Copyright Conventions, as well as to the Patent Cooperation Treaty.

Hungary has been generally supportive of U.S. positions on intellectual property in Uruguay Round discussions. While the Hungarian patent law is more modern and offers more protection than those of other CEMA countries, the law protects only the processes by which pharmaceuticals, chemicals, or foods are produced, not the products themselves. Because of Hungary's interest in increasing trade with the West, the Government has begun work on a new patent law which will establish product patent protection. Draft legislation has already been prepared and its approval by the Council of Ministers and the Hungarian Parliament is expected in the near future.

The lack of product patent protection has resulted in a number of disputes between Hungarian pharmaceutical manufacturers, who have one percent of world trade, and pharmaceutical manufacturers in other countries, including the United States. Hungarian manufacturers, using different processes from those utilized by American manufacturers, export competing products to third markets, undercutting U.S. suppliers.

8. Worker Rights *

a. Right of Association

While Hungarian workers are legally free to join independent unions--and many, mainly professionals, have--the membership loss of SZOT, the official trade union, seems to have slowed due to fears that non-union members will be laid off and because of a "check-off" system which makes leaving an official union a complex act. In April 1989, the Democratic League of Trade Unions was formally established to coordinate the work of independent unions. Several SZOT branch unions and locals, including the official film workers' union, work cooperatively with the independent unions. Together with the double-affiliated SZOT branch unions, Hungary's independent unions have over 40,000 members. There is no legal impediment to these affiliations.

b. Right to Organize and Bargain Collectively

Hungary's system of centrally-mandated wages ended in January 1989 when the Government initiated a system of "interest coordination," in which labor and management negotiate specific wages in individual enterprises based on government suggestions, which are backed up with tax incentives. The new system thus provides for a limited element of collective bargaining. Managers have some flexibility in job categorization and in payment of allowances, which also gives importance to worker-management discussions. While experience is lacking, there are no apparent safeguards against anti-union discrimination by employers, although the 1989 strike law rules out punitive measures against employees who took part in strikes.

c. Prohibition of Forced or Compulsory Labor

In June 1989 Parliament repealed the so-called "parasitism statute" of the penal code, which provided for sanctions up to one year's imprisonment against persons lacking visible means of support.

HUNGARY

d. Minimum Age for Employment of Children

The minimum age for employment is 15 years. There are no reports of significant abuses.

e. Acceptable Conditions of Work

Hungarian law obliges workplaces to provide workers with safe working conditions, a hot meal at heavily subsidized prices, and such pay-related benefits as overtime. The Government guarantees all Hungarians 15 days of paid vacation per year and one additional day for each 3 years of service. The minimum wage is equivalent to $66 per month at the official exchange rate. The Government provides all workers with free health care. The official work week is 45 hours, but most Hungarians work in second and third jobs. Safety conditions in Hungarian firms are not up the standards of Western industrialized countries.

f. Rights in Sectors with U.S. Investment

Conditions do not differ significantly from those in Hungarian firms. Some Western investors, including one U.S. firm in the textile industry, have bargained successfully for a union-free environment by paying wages well above the average.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		0

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Hungary country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

IRELAND

Key Economic Indicators

(Millions of Irish pounds (Irp) unless otherwise noted)

	1987	1988	1989 (est)	
Income, Production, and Employment				
Real GDP	19,955	21,370	23,684	
Real GDP growth rate (pct)	4.0	3.1	2.8	
GDP by sector (factor cost)				
Agric/forestry/fishing	1,924	2,207	n/a	
Industry	6,585	6,990	n/a	
Distrib/transp/communications	3,159	3,405	n/a	
Public admin/defense	1,190	1,221	n/a	
Other domestic	5,830	6,057	n/a	
Adjustment for financial svcs	-853	-850	n/a	
GDP at factor cost	17,836	19,030	n/a	
plus taxes on expenditure	3,674	3,932	n/a	
less subsidies	-1,520	-1,636	n/a	
GDP at market prices	19,989	21,326	n/a	
Real per capita income	3,898	4,106	5,994	
Size of labor force (1000s)				
Employed and unemployed	1,319	1,309	1,293	1/
Total employed	1,087	1,091	1,090	1/
Unemployment rate (avg pct)	18.8	18.4	17.1	2/
Money and Prices				
Money supply (M1) yr-end	2,384	2,607	2,672	2/
Associated banks' prime rate	8.75-	7.75-	8.75	
lending rate	9.00	8.00	9.00	2/
Commercial interest rate (pct)	9.25-	8.25	9.25	
(over 1-yr-up to 3 yrs)	9.50			2/
Savings rate (pct)	7.50-	5.75-	6.50-	
Investment share accts (pct)	7.75	6.25	7.00	2/
Investment rate (pct)				
1-yr to maturity	8.62 3/	8.39 3/	10.01	
8-yr to maturity	10.50 3/	8.64 3/	9.18	2/
Consumer price index 4/	130.7	133.5	140.0	2/
Wholesale price index 5/	98.4	102.4	105.9	2/
Exchange rate (annual avg)	1.4879	1.5249	1.3631	2/
Balance of Payments and Trade				
Total exports FOB	10,724	12,301	1,227	2/
Exports to U.S.	833.8	949.5	715.5	2/
Total imports CIF	9,155	10,213	973.7	2/
Imports from U.S.	1,555	1,623	1,305	2/
Aid from the U.S. (mils $)	85	35	6/	6/
Aid from other countries 6/				
Debt service cost	1,135	974	905	
Gross public sector foreign debt Year-end	9,689	9,498	n/a	
Gold & forex res (official external reserves) (yr-end)	2,821	3,161	2,497	2/

IRELAND

Balance of Payments and Trade, cont.

	1987	1988	1989 (est)	
Balance of payments (minus denotes debit balance)				
Merchandise balance	1,310	2,025	330	7/
Services balance	7	-58	-50	7/
Factor incomes balance	-1,957	-2,542	-589	7/
Transfers balance	879	1,011	459	7/
Total current acct balance	239	437	149	7/

1/ preliminary figures
2/ partial-year figures
3/ estimates
4/ base: mid-November 1982 = 100
5/ base: year 1985 = 100
6/ International Fund for Ireland (IFI): The U.S. has pledged $120 million, paying $50 million in March/April 1987, $35 million in July 1987 and $35 million in September 1988, with $10 million scheduled for early 1990. Canada pledged to contribute up to Canadian $10 million over 10 years, and has made payments of about C$1.5 million to date. New Zealand gave Pounds sterling 300,000 in August 1987. The EC has made grants of at least $18 million to the IFI, in addition to EC structural funds (subsidies) which Ireland receives.
7/ first quarter figures

Sources: Central Bank Quarterly Bulletin; Central Statistics Office (CSO); Economic & Social Research Institute.

1. General Policy Framework

Ireland has a small, open economy which is very dependent on trade. Exports of goods and services in 1988 equaled 72 percent of GNP, while imports equaled 62 percent of GNP. Government policies are generally formulated to facilitate trade and foreign investment. Ireland has a market economy, which is based primarily on private ownership. Government ownership and control of companies generally occurs in those sectors which are considered by the Government to be natural monopolies, those in which the state has stepped in to take over failing firms, or those of special importance to the country. In the majority of cases, government-owned companies are operated on a commercial basis, and may be in competition with privately owned firms in the same industry. In recent years, the Government has sold its interest in a number of firms which were considered viable commercial entities.

Fiscal Policy: Ireland's Exchequer debt at the end of 1988 was approximately Irp25.8 billion, of which about Irp9.5 billion is foreign debt. The majority of the debt was accumulated in the 1970s and early 1980s, partly as a result of oil price shocks, but also as a result of expanding social welfare programs. High interest rates during that period, secondary objective of keeping Irish exports competitive on U.K. markets by maintaining the Irish currency at about .85 pounds sterling. However, inflation in Britain has been consistently higher than in Ireland in recent years, and the Irish pound is expected to appreciate against sterling. As part of the Common Agricultural Policy (CAP) of the EC, Ireland has maintained multiple exchange rates (known as green currency rates) on agricultural goods subject to the CAP.

Ireland differentiates between EC and non-EC countries with respect to exchange controls. All current transactions and most capital movements with other EC countries have been liberalized. However, Ireland maintains a prohibition on the purchase of short-term securities and the establishment of bank accounts abroad by Irish residents. These remaining restrictions for EC countries are due to be abolished by the end of 1992. There are a number of additional restrictions which apply to non-EC countries. Irish residents making direct investments (including real estate) in non-EC countries are expected to finance 75 percent of the investment with foreign currency raised abroad. Purchases of residential properties abroad by Irish residents are limited to Irp50,000 with a requirement to finance 75 percent of the funds abroad. Personal gifts or loans are limited to Irp3,000 per year per donor. Irish residents traveling abroad may obtain automatically the foreign currency equivalent of Irp1200 for their trip. Additional amounts with no limit may be obtained upon presentation of supporting documents justifying the amount. Long-term investments abroad by Irish companies and individuals were liberalized in January 1989. With regard to inward direct investment, the Irish Government restricts on a case-by-case basis fixed asset financing from Irish sources. There are no restrictions on the repatriation of profits or the proceeds of asset sales.

3. Structural Policies

Prices for most goods in Ireland are determined by the market. Price controls were common on many goods until January 1986, when the Government abolished the National Price Commission and decontrolled most product areas. Milk and bread controls were eliminated in 1989. The only remaining prices controlled by the Government are on premium gasoline and diesel. These products are subject to a maximum price established monthly by the Minister of Industry and Commerce. Prices for many agricultural products are determined in large measure by the EC's Common Agricultural Policy.

The Irish tax system for corporations favors manufacturing and exporting companies. Those companies pay income tax of only 10 percent, compared to the normal corporate rate of 43 percent. This gap encourages the development of businesses in those sectors. Personal income taxes are very high, encouraging emigration and tax avoidance by people at all income levels. The standard rate of tax, 32 percent, is assessed on single earners making more than Irp6,100, and on married earners making more than Irp12,200. The next rate of tax, 48 percent, is assessed on single earners on the next Irp3,100 and on married earners on the next Irp6,200. The top rate of personal income tax is 56 percent and applies to the balance earned by both single and married persons. Many pay an additional 7.75 percent of their earnings for a variety of social security programs. The standard rate of value-added tax (VAT) is 25 percent, but many essential goods, including food are not subject to VAT.

Government investment incentives are among the most extensive in Europe and are weighted toward high technology, export-oriented companies. Capital grants by the Irish Industrial Development Authority have generally tended to favor capital-intensive investments over labor-intensive ones.

4. Debt Management Policies

Ireland's total government debt at the end of 1988 was about Irp26 billion, or about 138 percent of GNP. Foreign debt amounted to Irp9.5 billion. As of June 1989, 33 percent of the foreign debt was denominated in deutschemarks, 18 percent in Swiss francs, 17.7 percent in U.S. dollars, 13.6 percent in Japanese yen and 6.6 percent in European Currency Units (ECUs). Debt service for 1989 is estimated at Irp1.26 billion, or about 7.8 percent of projected exports of goods and services and about 5.4 percent of estimated GDP.

5. Significant Barriers to U.S. Exports and Investment

Ireland maintains a limited number of barriers to U.S. trade in goods and services. Ireland has some of the strictest animal and plant health import restrictions in the EC. These, together with substantial EC variable import duties, effectively exclude many meat-based foods and other agricultural products.

In the airline industry, U.S. airlines serving Ireland may provide their own ground handling services, but are prohibited from providing those services to other airlines. In addition, the Government-owned airline, Aer Lingus, denied to U.S. computer reservations systems the right to issue tickets in its name, effectively rendering U.S. systems unmarketable. The impasse was resolved early in 1989, however, at least with respect to SABRE, the largest U.S. provider. Further, in October the United States and Ireland agreed on guarantees protecting the rights of U.S. computer reservation systems.

In the insurance industry, U.S. firms are at a disadvantage compared to their competitors from EC member states, which may establish a branch operation in Ireland without meeting the Irish capital adequacy requirements. U.S. and other non-EC firms must establish a corporate identity in Ireland and comply with the requirements on capital adequacy.

IRELAND

6. Export Subsidy Policies

Ireland benefits substantially from EC export subsidies on agricultural products. Ireland has a number of national export subsidy programs. However, the widely-used Export Sales Relief Program, which exempted companies from paying tax on that portion of income derived from exports, ended December 31, 1989. There are no tax or duty exemptions on imported inputs except for those companies located in the Shannon Duty-free Zone.

The Irish Export Board organizes trade missions and subsidizes some of the cost of participation (20-50 percent) in foreign trade fairs. The Board also provides annual grants of up to Irp5000 for small companies in the beginning stages of developing exports. The Government administers export credit and insurance programs for exporters in accordance with OECD guidelines.

7. Protection of U.S. Intellectual Property

Ireland is a party to the Berne and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property.

Ireland supports strong protection for intellectual property rights. The Government encourages foreign direct investment, especially in high-tech industries. Consequently, protection of intellectual property rights has been an important part of the Government's business policy. Protection is generally on a par with other developed countries in Europe, and the Government has been responsive to problems which arise. New legislation is being prepared which would increase penalties for copyright infringement and clarify copyright protection for computer software. This effort is, in part, in response to complaints of pirating of video tapes, which, according to industry sources, is difficult to curb given the weak penalties for infringement.

In addition, the Government is preparing legislation which would allow Ireland to become a signatory to the European Patent Convention. The legislation will also introduce short-term patent protection (ten years) for lower level new technologies. Such protection will be granted without detailed searches, and is designed to meet the perceived needs of domestic small-industry in Ireland.

Existing trademark legislation in Ireland does not specifically cover service industry trademarks. Although some court cases have extended protection to trademarks in service industries, the Government is considering the need for new legislation to make protection explicit.

IRELAND

8. Worker Rights *

a. The Right of Association

Workers in Ireland have the right to associate freely and to strike. The right to join a union is guaranteed by law, as is the right to refrain from joining. Most businesss are unionized (covering over 56 percent of the labor force.) Unions have full freedom to organize and engage in collective bargaining. Most terms and conditions of employment are determined through this means.

b. The Right to Organize and Bargain Collectively

Labor legislation and practice are uniform throughout the country. A labor court, consisting of an employer representative, a trade union representative and an independent chairman, may investigate trade disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited and does not exist in Ireland.

d. Minimum Age for Employment of Children

The minimum age for employment is 14 years with written parental permission. The hours of work for workers under 18 are limited by law. These provisions are enforced effectively.

e. Acceptable Conditions of Work

There is no general minimum wage legislation. However, some workers are covered by minimum wage laws applicable to specific industrial sectors. Working hours in the industrial sector are limited to 9 hours per day and 48 hours per week. Overtime work is limited to 2 hours per day, 12 hours per week, and 240 hours per year. Four basic laws provide for occupational safety. An extensive system of public health insurance offers health protection.

f. Rights in Sectors with U.S. Investment

Worker rights in sectors with substantial U.S. investment are the same as described above for the Irish economy in general.

IRELAND

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		-9
Total Manufacturing		4,138
Food & Kindred Products	659	
Chemicals & Allied Products	1,010	
Metals, Primary & Fabricated	139	
Machinery, except Electrical	750	
Electric & Electronic Equipment	412	
Transportation Equipment	8	
Other Manufacturing	1,161	
Wholesale Trade		16
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		4,145

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Ireland country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

ITALY

Key Economic Indicators

(Billions of Italian lire (L) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production and Employment			
Real GDP (1980 prices)	443,297	460,717	476,150
Real GDP growth rate	3.0	3.9	3.4
GDP by sector			
Agriculture	24,161	23,356	23,590
Manufacturing	162,393	170,693	177,242
Services	200,252	209,883	218,278
Services not for sale	50,796	51,685	52,150
Real GDP growth by sector			
Agriculture	3.4	-3.3	1.0
Manufacturing	3.4	5.1	3.8
Services	2.9	4.8	4.0
Services not for sale	1.0	1.8	0.9
GDP per capita (000s lire) (1980 prices)	7,730	8,020	8,275
Labor market (000s)	23,669	23.988	24,202
Employment by sector	20,836	21,103	21,298
Agriculture	2,169	2,059	2,018
Industry	6,715	6,788	6,790
Services	11,952	12,256	12,490
Unemployment	2,832	2,885	2,904
Unemployment rate (pct)	12.0	12.0	12.0
Money and Prices			
Money supply (M1)	360,819	388,174	404,211 (Jun)
Money supply (M1) growth rate (pct)	7.4	7.6	16.5 1/
Interest rates (pd-end)			
Treasury bills 6-month	10.1	9.9	11.2 (Sep)
Effective prime rate	13.0	13.0	14.0 (Sep)
Wholes prices (avg) (1980 = 100)	175.6	183.9	194.2 (Aug)
Cost of living (1985 = 100)	111.0	116.5	123.2 (Sep)
Exchange rate (avg L/$1.00)	1,296	1,302	1,384 (Sep)
Balance of Payments and Trade			
Total exports FOB	150,454	167,189	123,687 (Aug)
Exports to U.S.	14,456	14,834	6.933 (Jul)
Total imports CIF	161,597	180,064	136,587 (Aug)
Imports from U.S.	8,619	10,053	9,362 (Jul)
Bank of Italy international reserves (pd-end)	74,297	82,773	90,538 (Aug)
Commercial banks foreign position (pd-end)	-34,949	-46,169	-55,095 (Aug)
Public external debt (trills lire)(yr-end)	51.4	60.7	n/a
Balance on current account	-1,940	-6,779	n/a
Balance on trade account	-11,143	-12,875	-12,900 (Aug)

1/ Money supply growth rate is for June 1989 over June 1988.

ITALY

Note: Percent change over previous period is in lire unless otherwise indicated. 1989 estimates in the first section of the table are based on a September 1989 Italian Government economic planning and forecast report. 1989 numbers in the second and third sections are for the period from January 1, 1989 through the end of the month shown unless otherwise indicated.

1. General Policy Framework

The Italian economy is one of the free world's largest, having undergone a dramatic transformation into an industrial power in the post-war period. Since 1982 the services sector has led economic growth while the industrial sector retooled. Industrial output returned to 1980 levels in 1987, and has continued to expand. A member of the Group of Seven, the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the European Communities (EC), Italy maintains a relatively open economy, though its importance as a trading country lags slightly behind its overall economic performance.

The state plays an active role in the economy, not only in the making of macroeconomic policy and rules, but also as an owner of industrial plants and a major source of credit. Nonetheless, the Italian private sector is large and dynamic. While Italy has relatively few internationally known large conglomerates, there are a huge number of small and medium-sized firms that compete effectively both in domestic and foreign markets. The northern half of the country is more developed and enjoys higher per capita incomes than the southern half. The divergence in wealth is also reflected in higher unemployment in the south, which constitutes one of Italy's major economic and social problems.

Domestic demand has been growing at a faster pace than domestic output in recent years, leading to a growing current account deficit in the balance-of-payments. The Government plans to use measures connected with its 1990 budget package (such as selected tax increases. reduced transfers, and limits on public sector salary increases) to slow the growth of domestic demand, which (if effective) could also lower Italian demand for imports.

Italy's huge public debt constitutes its most pressing economic problem. The Government estimates that the stock of this debt will exceed the value of the gross domestic product (GDP) in 1990. The annual budget deficit stood at 11.5 percent of GDP in 1988 or more than four times the comparable U.S. figure. Despite recent gains associated with economic growth in the ratio of revenues to GDP in this decade and a gradual widening of the tax base, increases in spending in such areas as pensions, health care, and public sector salaries have frustrated plans to reduce the deficit and slow the rate of increase of the public debt. Interest payments are becoming an increasingly larger portion of the annual deficit. The Government has announced its intention to stabilize the public debt/GDP ratio by 1992 through a combination of increased tax receipts and spending controls. Such policies, in tandem with those designed to slow the growth of domestic demand, could have a dampening effect on import demand, but experience has shown that policies of this type are difficult to implement in the Italian political system.

The primary objective of Italian monetary policy is to finance the budget deficit in the least inflationary way. The overall monetary policy objective is to hold the increase in credit to the nonstate sector to the increase in the forecast rate of increase of nominal GDP. Within this policy framework, the Bank of Italy in recent years has tried to move away from direct monetary controls in favor of indirect instruments, but with mixed success. In September 1987 credit controls were imposed in response to pressure on the lira; the ceilings were lifted in the spring of 1988. During 1989, credit to the non-state sector has increased well above the target rate; banks have financed the credit expansion by reducing their holdings of Treasury securities. Households have taken up the slack and boosted their holdings of treasury securities, which are highly liquid. The principal monetary policy tool of the Bank of Italy is open market operations exercised through re-purchase agreements with the banks. The Central Bank discount window is seldom opened.

2. Exchange Rate Policies

Italy is a member of the European Monetary System (EMS) as well as its exchange rate mechanism. As such, it is committed to maintaining a flexible parity in relation to the currencies of its EMS partners. Because of past volatility of the lira and the relative "weakness" of its balance-of-payments position, Italy enjoys a wider band of fluctuation around its central rate: the lira can fluctuate plus or minus 6 percent, as opposed to 2.25 percent for the other EMS currencies. In recent months the lira has been held within the narrower band; officials have said that Italy will formally adopt the narrower band in the near future.

Italy has long maintained foreign exchange controls, which have just recently been significantly liberalized. The Italian exchange office, an adjunct of the Bank of Italy, maintains a monopoly on foreign exchange transactions, which it exercises through a system of authorized banks. As of October 1, 1988 many operations were newly-permitted, such as forward cover of foreign exchange operations, foreign exchange financing by residents, and small net foreign exchange positions by banks. Some restrictions remain, principally intended to hinder direct foreign currency speculation. Italy is committed to join its EC partners in total liberalization of short-term international capital movements by July 1990. Only then will Italian residents be allowed to hold bank accounts abroad.

ITALY

3. Structural Policies

Structural rigidities have hindered Italy's economic growth. Rigid hiring and firing rules, downward wage stiffness, and high unemployment benefits for redundant industrial workers have created a resource-distorting labor market and have had a negative impact on job creation. Domestic employment laws require that labor placements of unskilled workers be done through government employment offices rather then directly by the employer, which also contributes to lack of flexibility. Inefficiencies and excessive regulation in the delivery of public services also serve as a hindrance to growth and add to the cost of doing business in Italy. The state railway, communications and postal systems are particularly notorious in this regard. A third major area of structural rigidity is financial markets, which traditionally have been weak, heavily regulated and slow to respond to market needs.

Finally, the Italian system of state ownership of large enterprises and subsidization can reduce the flexibility of companies to respond to a rapidly changing marketplace. Such structural problems have prevented stronger Italian economic growth and limited Italian demand for U.S. exports. Though some structural reforms have been proposed, and in some cases implemented (the October 1988 liberalization of foreign exchange transactions is an example), progress has been slow, and in many areas the perception is of only limited structural problems. Government pricing practices are not completely guided by free market principles. Government procurement, at least in some areas, is heavily directed toward Italy-based suppliers, e.g., telecommunications, heavy electrical equipment, and military hardware sectors. Except for agricultural products, taxes and customs duties do not present overly onerous obstacles to U.S. exports, other than the usual level of bureaucratic red tape which marks all transactions in Italy.

Within the EC, Italy has been a proponent of automobile local content rules requiring 80 percent EC-content in vehicles manufactured in the Community at Japanese-owned plants.

Italian structural policies are increasingly being made within the framework of the EC's effort to create a single European market. The EC program has created additional pressure for structural reform in Italy. The degree to which these policies affect demand for U.S. exports will to a large extent be determined by the orientation and degree of integration of the market after 1992. If the reforms lead to a more efficient distribution of Italian and European resources, the resulting increased growth could lead to more demand for U.S. goods and services.

ITALY

4. Debt Management Policy

Although Italy has not had external debt or serious balance-of-payments difficulties since the mid-1970s, its public debt is extremely large. It is financed principally through domestic capital markets, with various securities ranging in maturity from three months to ten years. Italy also has a large external debt, though very little of this represents obligations of the Republic of ~~Italy~~. While Italy's foreign assets are substantial, its net investment position is negative amounting to $46.4 billion at the end of 1988. Italy's banking system has significant claims on the debtor countries. These amounted to about $15 billion at the end of 1988.

5. Significant Barriers to U.S. Exports and Investment

Some Italian imports from the United States continue to be subject to quantitative restrictions or variable levies. Rulings by local customs authorities, often arbitrary or incorrect, can result in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but the problems generally arise on a case-by-case basis.

Telecommunications services are still tightly regulated by the state. Teletype and videotext services operate under a monopoly of Italian telecommunications authorities. Enhanced services must be offered over the public switched network or through dedicated leased circuits. Resale of leased line capacity and multi-user networks are officially outlawed, but sometimes tolerated where need is demonstrated. Although not currently enforced, Italian legislation reserves 40 percent of Italian television screen time for films of Italian and EC-origin.

Agricultural imports face numerous health and phytosanitary requirements that sometimes result in what we consider unjustified exclusion or restriction of some U.S. products such as meat (except horse meat), seeds for planting, citrus (other than grapefruit), and many unprocessed fruits and vegetables, including apples and pears.

Government procurement is fragmented, under-publicized and almost impossible to access by U.S. exporters without a good Italian representative. Through its ownership of holding companies, the Italian Government, directly or indirectly controls hundreds of enterprises--including the electrical utility and telephone companies. None of these is required to adhere to the terms of the GATT Government Procurement Code. Tendering procedures do not usually give satisfactory deadlines. Tenders, other than those also published by the EC, are only in Italian, and bids must be in Italian.

While official Italian policy is to encourage foreign investment, all industrial projects require a multitude of approvals and permits from the many-layered Italian bureaucracy, and foreign investments often receive close scrutiny. These lengthy procedures can, in and of themselves, present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport, aircraft manufacturing, banking and the state monopolies (e.g., railways, tobacco manufacturing and electrical power). Investment incentives consisting of tax breaks and other measures were implemented to attract industrial investment to depressed areas, especially in the south of Italy.

Further, an antitrust bill now being considered in parliament could, if enacted as is, apply a reciprocity test to screening of large-scale mergers and acquisitions involving foreign companies.

6. Export Subsidies Policies

Italy subscribes to EC directives and Organization for Economic Cooperation and Development agreements on export subsidies. Italy provides direct assistance transfers to industry and business firms to improve their international competitiveness. This assistance includes export insurance, the state export credit insurance body, as well as export credits. Italy through the EC is a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

The Italian Government is a member of the World Intellectual Property Organization, and a party to the Berne and Universal copyright conventions and to the Paris Industrial Property and Brussels Satellites conventions and to the Patent Cooperation Treaty.

Intellectual property protection is particularly troublesome because of inadequate enforcement of copyrights, including widespread record, video, and computer software piracy. Because of the serious piracy problem, last May, Italy was among the countries placed on the U.S. Trade Representative's "Watch List" under the Special 301 provision of the October 1988 Omnibus Trade and Competitiveness Act.

Much of this software piracy is due to an overly liberal interpretation of the definition of end-user, which results in rampant copying. Continued U.S. pressure by the private sector and Government has helped to make the Italian Government aware of the seriousness of the problem, but implementation of more stringent protection of intellectual property has been slow in coming.

Within the EC, Italy has one of the lowest rate of patent filings and, perhaps not surprisingly, is not as concerned about patent infringement as it is about counterfeiting, which hits its upscale fashion industry very hard.

ITALY

Lack of trademark protection abroad is a particular headache for Italy's trendy fashion designers. Trademarks for a wide array of clothing and accessories, both domestic and foreign, such as Lacoste, are counterfeited and distributed at home and abroad.

8. Worker Rights *

a. The Right of Association

The workers' statute of 1970 provides that "the right to establish trade union associations, to join them and to carry out union activities is guaranteed to all workers inside their places of work." Trade unions are not government controlled, and the constitution fully protects their right to strike, which is frequently exercised.

b. The Right to Organize and Bargain Collectively

The right of workers to organize and bargain collectively is protected by the Constitution. Labor-management relations are governed by legislation, custom, collective bargaining agreements, and labor contracts. A key element affecting the industrial relations climate has been the 1986 agreement on indexing wages to the cost of living every six months. About 40 percent of Italian workers are covered by collective bargaining agreements. Voluntary, nonbinding mediation is provided by the Ministry of Labor and is often effective. There are no areas of the country, such as export processing zones, where union organizations and collective bargaining are impeded or discouraged.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist.

d. Minimum Age for Employment of Children

Under current legislation, no child under 15 may be employed (with some exceptions). The Ministry of Labor, having consulted with labor organizations, may authorize the employment on specific jobs of children over 12. The minimum age is 15 for men employed in dangerous, fatiguing, and unsanitary work, and 16 for men employed underground, in hazardous jobs or in occupations harmful to the workers' morale. No women are can be employed underground and only those over 21 in dangerous, fatiguing, and unsanitary jobs.

e. Acceptable Conditions of Work

Minimum work and safety standards are established by law and buttressed and extended in collective labor contracts. The basic law of 1923 provides for a maximum workweek of 48 hours--no more than 6 days per week and 8 hours per day. The 8-hour day may be exceeded for some special categories. Most labor agreements provide for a 36- to 38-hour week. Overtime may not exceed 2 hours daily or an average of 12 hours weekly.

ITALY

There is no minimum wage set under Italian law; basic wages and salaries are set in collective labor agreements. National collective labor agreements contain minimum standards to which individual employment agreements must conform. In the absence of agreement between the parties, the courts may step in to determine fair wages on the basis of practice in related activities or related collective agreements.

Basic health and safety standards and guidelines for compensation for on-the-job injury exist in law and, in most cases, are exceeded in collective bargaining agreements. Enforcement of health and safety regulations is entrusted to labor inspectors, an autonomous group within the Labor Ministry who, since 1981, have the same status as judicial police officers. Inspectors visit companies periodically to ensure observance of safety regulations. There are many substandard workplaces in Italy, especially in the South.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in all of the goods producing sectors where Italian workers enjoy the same rights as other workers in Italy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		401
Total Manufacturing		6,361
Food & Kindred Products	476	
Chemicals & Allied Products	1,657	
Metals, Primary & Fabricated	124	
Machinery, except Electrical	2,980	
Electric & Electronic Equipment	335	
Transportation Equipment	135	
Other Manufacturing	854	
Wholesale Trade		1,153
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		7,915

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Italy country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

LUXEMBOURG

Key Economic Indicators

(Billions of francs (Luxfr) unless otherwise noted)

	1987	1988	1989
Income, Production, and Employment			
Real GDP	255.2	276.4	290.7
Real GDP growth rate (pct)	3.5	4.1	3.5
GDP by sector			
Agriculture	6.9	n/a	n/a
Extracting industries	.3	n/a	n/a
Manufacturing	59.7	n/a	n/a
Iron/steel	19.4	n/a	n/a
Chemicals/rubber	11.5	n/a	n/a
Electricity/gas/water	5.4	n/a	n/a
Construction	15.0	n/a	n/a
Transport	15.8	n/a	n/a
Dist trades/hotel/restaurant	40.5	n/a	n/a
Banking/finance/insurance	37.0	n/a	n/a
Public administration	32.6	n/a	n/a
Other services	41.8	n/a	n/a
Real per capita income (000s)	690,000	743,000	771,000
Labor force (thousands)	169	175	178
Unemployment rate (pct)	1.7	1.6	1.4
Money and Prices			
Money supply	54.3	56.6	63.1
Commercial interest rate	n/a	n/a	n/a
Savings rate	n/a	n/a	n/a
Investment rate	n/a	n/a	n/a
Consumer price index (1984=100)	104.1	104.4	105.8
Wholesale price index	n/a	n/a	n/a
Exchange rate (Luxfr/$1.00)			
Official	37.56	36.91	38.52
Free market	37.77	37.25	38.63
Balance of Payments and Trade			
Total exports FOB	163	186	n/a
Exports to U.S.	8.5	9.0	n/a
Total imports CIF	188	207	n/a
Imports from U.S.	6.4	4.7	n/a
Aid from other countries	0	0	0
External public debt	5.4	5.7	5.2
Annual debt service (payments)	n/a	n/a	n/a
Gold and forex reserves	n/a	n/a	n/a
Balance of payments	34	38.7	n/a

LUXEMBOURG

1. General Policy Framework

The Grand Duchy of Luxembourg is a highly developed, industrialized country. Its economy is based on free enterprise and its people have one of the highest standards of living in the world. The country is characterized by stability. Inflation is low and expected to register about 3 percent in 1989; prices rose 1.4 percent in 1988. Unemployment is the lowest in the European Community (EC) at 1.4 percent. The economy is strong and grew a robust 4.1 percent in 1988, the most in the post-war period. It should expand about 3 percent this year. Luxembourg is a strong advocate of free trade. Major firms are 95 percent export-oriented and imports supply 85 percent of consumer goods. No policy changes have occurred in Luxembourg in the last two years which affect American exports.

Government finances are conservatively managed. The government budget is normally in surplus, and the Government is a net creditor. The banking sector has been the leading growth element of the Luxembourg economy in recent years. Luxembourg law has fostered the growth of the financial center. There is no withholding tax for non-residents on interest and coupons, except on dividends of Luxembourg corporations. Banking secrecy is strict and precludes the passing of information to parent banks on individual accounts.

2. Exchange Rate Policies

Luxembourg and Belgium comprise the Belgium-Luxembourg Economic Union (BLEU). The Luxembourg and Belgian francs are equivalent in value, and exchange regulations are common to the two countries. There is freedom of foreign exchange. Transactions must be carried out either on the official market, where fluctuations in the rate of exchange are controlled by the National Bank, or on the open market, where the rate is freely determined by supply and demand. The official market is reserved for exchange operations in connection with commercial transactions. The open market is used for "financial transactions." The two rates are very close.

3. Structural Policies

Purchasing decisions are made in an open and free market. With the notable exception of agricultural products, as defined by the EC's Common Agricultural Policy, the Government does not attempt to subsidize prices.

Luxembourg joins with Belgium and the Netherlands in the Benelux Union which has formulates and implemented some common regulations in the areas of customs, standards, and intellectual property rights regulations. The Benelux countries generally present a common front on trade-related issues in policy negotiations within the EC.

LUXEMBOURG

Major restructuring has taken place in Luxembourg's steel sector. Despite severe cuts in production and employment, steel still accounts for over 10 percent of the country's gross national product. With the decline of steel, however, the services sector has been the focus of attention and development. The natural benefits of location and communications infrastructure have been propounded by the Government to encourage the financial services sector to make Luxembourg a major financial center.

The lack of withholding tax for nonresidents on interest and coupon payments has fueled the growth of the banking sector. The corporate tax rate was lowered to 35 percent in 1989, down from 40 percent a few years ago.

4. Debt Management Policies

Luxembourg is a net creditor.

5. Significant Barriers to U.S. Exports and Investment

Luxembourg welcomes, and actively seeks, foreign investment. In general, there are no barriers to foreign investment, although some restrictions apply to foreign-controlled companies in the public transport and regularly scheduled air transport sectors.

6. Export Subsidies Policies

Luxembourg offers a number of direct aids to finance exports, including export credits granted by the Societe Nationale de Credit et d'Investissement (SNCI); country-to-country credits; and, interest rebates on loans to finance the export of goods•granted by COPEL, the Comite pour la Promotion des Exportations Luxembourgeoises. The Government also encourages exports by giving guarantees against credit risk. Up to 95 percent of an export credit can be guaranteed.

7. Protection of U.S. Intellectual Property

The Grand Duchy is a signatory to various international agreements on intellectual property, including the Berne Convention, the 1883 Paris Copyright Convention, the Patent Cooperation Treaty, the Universal Copyright Convention and the European Patent Convention.

Intellectual property is protected by Luxembourg law. Piracy and counterfeiting are not problems.

The Benelux Convention on Trademarks, signed in Brussels on March 19, 1962, established a joint process for the registration of trademarks for Belgium, Luxembourg, and the Netherlands. Luxembourg law offers the possibility of protecting service marks as trademarks.

LUXEMBOURG

The patent term in Luxembourg is 20 years from date of filing. No compulsory licensing of patent rights held by foreigners has ever taken place, nor is it likely in the future. There have been no problems registering or maintaining trademarks. The Luxembourg Copyright Act of 1972 allows for civil and penal actions in the local courts.

There are no reported instances of Luxembourg's intellectual property practices having negatively affected U.S. exports.

8. Worker Rights

a. Right of Association

Workers have the right to associate freely, to choose their own representatives, publicize views, and determine their programs. A large percentage of the work force is unionized, but membership is not mandatory. Workers have the right to strike, although strikes are rare. Unions are free from government interference and maintain unrestricted contact with international bodies in their fields.

b. The Right to Organize and Bargain Collectively

The Constitution ensures freedom of union activity and protects union leaders and members from discrimination. Unions have the right to organize and bargain collectively on behalf of their members, and this right is applied uniformly throughout the country. Worker representatives are required in all businesses of 15 or more employees. In businesses with over 150 employees, 50 percent of the joint works councils are elected by the employees. In businesses with more than 1,000 employees, one-third of the membership of the Boards of Directors must be employees or their elected representatives. An effective system exists to hear and adjudicate employment-related complaints.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist.

d. Minimum Age for Employment of Children

The employment of children under age 15 is prohibited. Child labor laws are strictly enforced. Adolescent workers (15 to 17) are specially protected by laws limiting overtime and the number of hours which may be worked continuously.

e. Acceptable Conditions of Work

Luxembourg's health and safety standards are among the highest in the world. A safe working environment is mandated by law and enforced through a stringent inspection system, which can impose severe penalties. Pregnant women who work receive special consideration in the workplace. The normal workweek is 40 hours, spread over 5 days. Premium pay is required for work outside the normal workweek. Work on Sunday is generally prohibited, except in certain circumstances. All workers receive a minimum of 5 weeks of paid vacation a year, and paid holidays. The minimum wage is $4.50 per hour for all workers 18 years and older. Younger workers are subject to a lower minimum wage.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in the sectors of chemicals and related products, primary and fabricated metals, electric and electronic equipment, transportation equipment, other manufacturing and wholesale trade. Worker rights in these sectors are the same as in the economy as a whole.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		3
Total Manufacturing		456
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	30	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(*)	
Other Manufacturing	381	
Wholesale Trade		5
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		464

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

THE NETHERLANDS

Key Economic Indicators

(Millions of guilders (G) unless otherwise noted)

Income, Production, and Employment	1987	1988	1989 (est)	
Real GN	434,150	447,750	469,550	
Real GNP growth rate	2.5	2.0	4.0	
GNP by sector				
Non-banking	334,330	352,540	n/a	
Imputed bank services	-16,300	-17,210	n/a	
Banking	15,650	16,500	n/a	
Insurance	5,550	5,780	n/a	
Government	51,440	51,800	n/a	
Real per capita income	29,736	30,459	31,942	
Labor force (thous)	6,593	6,756	n/a	
Unemploment rate (pct)	14.2	1/ 6.4	6.6	
Money and Prices				
Total money supply (M1)	104,148	110,544	118,257	
Commercial interest rates (pct)				
Money market rate	5.16	4.44	7.94	2/
Capital market rate	6.40	6.10	7.36	2/
Savings rate (pct net nat'l income)				
Private	14.1	15.7	16.0	
Public	-1.4	-1.2	-1.2	
Investment rate (pct net nat'l income)				
Private	19.9	20.9	22.4	
Public	2.6	2.6	2.5	
Consumer price index (1985=100)	99.4	100.1	101.5	3/
Wholesale price index (1980=100)	105.2	106.1	111.4	4/
Exchange rate (G/$1.00)	2.03	1.98	2.00	
Balance of Payments and Trade				
Exports FOB	189,020	206,400	226,600	
Exports to U.S.	8,133	8,745	n/a	
Imports CIF	184,900	198,000	221,400	
Imports from U.S.	13,307	15,004	n/a	
Aid from U.S.	0	0	0	
Aid from other countries	0	0	0	
External public debt	0	0	0	
Annual debt service payments	14,431	19,590	19,967	
Gold and forex reserves	56,579	60,477	62,610	5/
Balance of payments (bils, trans)				
Current account	6.5	10.7	7.0	

1/ Estimated percent of the labor force. As of January 1, 1989, Central Bureau of Statistics (CBS) census-based unemployment statistics have replaced Social Ministry unemployment data from regional labor bureaus.

2/ as of September
3/ as of August
4/ as of July
5/ as of June

Sources: CBS, Netherlands Central Bank, Central Planning Bureau.

THE NETHERLANDS

1. General Policy Framework

The Netherlands has an advanced industrial economy with four decades of prosperity behind it. Its major economic assets are a skilled, highly productive work force, substantial reserves of natural gas and its geographic location in northwest Europe at the mouth of the Rhine river. The Netherlands is a member of the European Community and expects to benefit from the EC's efforts to build a single market by 1992. Real GNP grew by two percent in 1988 and grew more than four percent in 1989. Dutch economic expansion has been marked by low inflation (1 percent) and booming private investment. Strong demand for Dutch exports produced a huge $5 billion current account surplus and contributed much of the impetus for economic growth. While the rate of export expansion slackened slightly in 1989, stronger domestic demand from investors and consumers supported rapid growth.

Despite the favorable economic outlook and continued confidence in the strength of the expansion, some uncertainty crept into the picture with the fall of the center-right coalition government on May 3, 1989. A new center-left government was formed in November by Ruud Lubbers, leader of the centrist Christian Democrats, who had led the previous coalition. The new Government inherited a good economic situation but a higher-than-expected budget deficit. The moderate policies of the last government are expected to continue, although with a relaxation of austerity and some increase in social welfate spending.

Although steady progress has been recorded over the past several years, unemployment and the government budget deficit remain the Netherlands' most serious economic problems. The deficit will likely be brought under five percent of net national income in 1990 (it had been as high as ten percent in 1984), and the major political parties have agreed to bring the figure down to 3.25 percent by 1994.

Unemployment has proven a remarkably persistent problem for the Netherlands despite a two percent annual growth in the number of employed persons over the past five years. Unemployment at present stands at about 6.6 percent of the labor force, based on a new statistic introduced at the beginning of 1989 which excludes job seekers who are not registered as unemployed. Inclusion of the unregistered job seekers raises the total to 9.2 percent. Demographic trends will result in a slower growth of the labor force during the 1990s but the entry of Dutch women into the labor force will partly offset demographic factors.

The Netherlands is a highly receptive market for U.S. exports as well as an important investment partner. The U.S. trade surplus with the Netherlands, which already was our largest trade surplus in the world, ballooned to $5.2 billion in 1988, with a 23 percent gain in U.S. exports. The Netherlands is the third largest direct investor in the United States, behind the United Kingdom and Japan. U.S. direct investment in the Netherlands is valued at about $15 billion.

THE NETHERLANDS

Fiscal Policy: The reduction in the Dutch budget deficit has been achieved primarily through restraints on expenditure. The level of government spending remains high at 37 percent of GNP. Corporate tax rates and the value-added tax rate were both lowered last year and income tax rates are scheduled to be reduced in 1990.

Monetary Policy: The Dutch guilder belongs to the European Monetary System and is tied closely to the deutsche mark. Monetary policy is aimed at achieving exchange rate stability and low inflation and is implemented through open-market operations and the imposition of reserve requirements on domestic banks.

2. Exchange Rate Policies

The Dutch guilder is linked to the West German deutsche mark in the European Monetary System. There are no multiple exchange rate mechanisms. While residents of the Netherlands must obtain an exchange license for certain large international financial transactions, in practice these licenses are granted routinely and there is thus no exchange control.

3. Structural Policies

Holland's exports of goods and services were valued at more than 65 percent of GNP in 1989. It is not surprising that Holland is a strong supporter of free trade. Almost all purchasing decisions are made on the basis of nondiscriminatory commercial criteria. Government procurement is done in compliance with the GATT Government Procurement Code. The Netherlands has no discriminatory export or import policies with the exception of those resulting from its membership in the European Economic Community.

The volume of consumer spending rose by about 3.5 percent in 1989, following a modest 2 percent rise in 1988. Fueling the increase was growth of about 3.25 percent in real disposable incomes, helped by a 1.5 percent cut in the top value-added tax rate to 18.5 percent. Investment growth is a particularly bright spot for the economy, with a 7 percent real growth in 1988, followed by an estimated 9.25 percent growth in 1989.

Increased momentum toward the European Community's goal of a unified internal market in 1992 has caught the attention of growing numbers of U.S. exporters eager to take advantage of the position and experience of the Netherlands as a distribution center for Europe. It has also sparked a wave of interest in investment in Holland as non-EC firms seek to get a foothold in the Community.

THE NETHERLANDS

4. Debt Management Policies

The Netherlands is a major creditor nation, with a current account surplus expected to reach $5 billion this year. The country has no significant external debt. The Netherlands is a participant in and a strong supporter of the IMF, IBRD, and other multilateral international financial institutions.

The Government has given a high priority to reducing its budget deficit as a percent of net national income. The figure had been as high as ten percent in 1984 and is expected to be five percent this year. The fovernment would like to reduce that figure to 3.25 percent in 1994.

5. Significant Barriers to U.S. Exports and Investment

The Dutch economy is one of the most internationally oriented in the world. The Netherlands is the sixth largest U.S. export market in the world, as well as the one with which the United States has its largest bilateral trade surplus ($5.5 billion as of the end of 1988).

In the past year, there have been no trade complaints by U.S. companies alleging discrimination or the existence of trade barriers. Although several years ago the Motion Picture Association cited Amsterdam as a major duplication and export center for pirated home video products in the European market, and complained of insufficient enforcement, this problem has become much less acute as Dutch authorities have stepped up enforcement efforts. 1988 statistics of an independent Dutch foundation (Buma Stemra) indicate that in 1988 only 42 percent of raided video outlets contained pirated material, contrasted to 96 percent in 1983. Over the same five-year period, the number of inspections of video outlets more than doubled. Additionally, the Dutch Government has proposed legislation to revise the Dutch copyright law, introducing higher penalties for copyright infringement.

While access to the telecommunications market has also been a problem in the past, the Dutch Postal, Telephone and Telegraph (PTT) monopoly was transformed into a government-owned corporation on January 1, 1989. The Netherlands now has the second most liberal telecom regime in Europe after the U.K.

Aside from limitations on the foreign ownership of firms in the aviation and shipping sectors, the Netherlands maintains an open climate for foreign investment. Dutch law contains a reciprocity provision which prohibits granting of a banking license to any foreign firm from a country which prohibits Dutch firms from establishing banking subsidiaries. Foreign banks established in the Netherlands are granted national treatment subject to a reciprocity requirement that prohibits foreign banks from acting as lead manager of guilder-denominated bond issues in the Netherlands unless Dutch banks are afforded comparable treatment in the parent country of the foreign bank in question. There are no notification requirements for foreign direct investment.

6. Export Subsidies Policies

The Netherlands practices no preferential or discriminatory export or import policies with the exception of those which result from its membership in the European Economic Community. Besides the intra-EC trade regime, these preferences include the EC Generalized System of Preferences, the ACP system of preferences for African, Caribbean, and Pacific countries, and the EC preference agreement with the European Free Trade Association.

7. Protection of U.S. Intellectual Property

The Netherlands belongs to the World Intellectual Property Organization (WIPO), is a signatory of the major intellectual property accords, including the Berne Copyright, Universal Copyright, and Paris Industrial Property Protection Conventions, and conforms to accepted international practice for protection of technology and trademarks.

The Benelux Convention on Trademarks of 1962 established a joint process for the registration of trademarks for Belgium, Luxembourg, and the Netherlands.

Patents for foreign inventors are based on the date of original filing in the home country, provided the application is made though a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years from filing. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty of 1970, patent rights to the Netherlands may be obtained.

The Dutch Government has recognized the problems encountered in protecting intellectual property such as pirated home videos and has proposed legislation to revise the Dutch copyright law, which would introduce higher penalties for copyright infringement.

8. Worker Rights

a. The Right of Association

The right of Dutch workers to associate freely is well established. The active trade union movement includes in its membership approximately 30 percent of the employed labor force. Unions, while entirely free of government and political party control, may and do participate in political life. They are free to maintain relations with recognized international bodies and to form domestic federations. All union members, except civil servants, have the legal right to strike. Even the Dutch military is free to join unions. Legislation is pending which would grant the right to strike to civil servants not involved in "lifesaving" activities.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized and well established in the Netherlands. Neither in law nor in practice is discrimination against union members practiced. Negotiations between the unions and the Government take place both locally and in a fixed central negotiating body called the labor foundation. These rights and protections are applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist.

d. Minimum Age for Employment of Children

The minimum employment age is 16, when youths may work full time only if they have completed the mandatory 10 years of schooling. Those still in school at 16 may not work more than 8 hours per week. Laws prohibit youths under 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development. The Netherlands has a reduced minimum wage for employees under age 23. The purpose of this law is to provide incentives for the employment of young people, one of the groups with the highest rate of unemployment. Full-time workers 16 and older receive at least 20 paid vacation days per year.

e. Acceptable Conditions of Work

Dutch law and practice adequately protect the safety and health of workers (lost time due to industrial accidents and work-related illness was 6.5 percent man-days in 1988.) The average workweek for adults is 38 hours. There is minimum wage legislation, and the minimum wage is approximately $6.00 per hour. This minimum wage, together with social benefits available to all minimum wage earners, provides an adequate living for workers and their families. For unemployed workers, an extensive system of unemployment benefits allows recipients to maintain an adequate standard of living.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in the petroleum, food, chemicals and related products, primary and fabricated metals, machinery, electric and electronic equipment, and wholesale trade sectors. Workers in these sectors enjoy the same rights as other Dutch workers.

THE NETHERLANDS

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		2,212
Total Manufacturing		6,073
Food & Kindred Products	1,371	
Chemicals & Allied Products	2,220	
Metals, Primary & Fabricated	403	
Machinery, except Electrical	767	
Electric & Electronic Equipment	95	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		2,419
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		10,704

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

NORWAY

Key Economic Indicators

(Millions of Norwegian krone (NKr) unless otherwise noted)

	1987	1988	1989 (prelim)
Income, Production, and Employment			
Real GDP (1987 prices)	562,937	569,111	585,046
Real GDP growth (pct)	3.4	1.1	2.8
Current GDP	562,937	594,242	636,000
Population (mils)	4.19	4.21	4.23
Real GDP per capita (1987 pcs)	134,353	135,181	138,309
Current GDP per capita	134,353	141,150	150,355
Current GDP	562,937	594,242	636,000
By sector			
Agriculture and fishing	18,398	18,523	20,400
Oil/gas/shipping	65,362	62,244	74,000
Manufacturing	86,552	97,633	104,500
Construction	35,404	36,620	37,000
Other sectors	357,221	379,222	400,100
Labor force (mils)	2.17	2.18	2.19
Unemployment rate (pct)	2.1	3.2	4.8
Money and Prices			
Money supply (M2)	385,606	409,529	430,000
Loan interest rate (pct) a/	14.05	12.22	10.50
Savings rate (pct) b/	11.0	10.6	12.5
Investment rate (pct) c/	28.0	28.8	29,0
Consumer price index (1979=100)	199.1	212.4	222.0
Wholesale price ind (1981=100)	137.0	144.3	151.2
Exch rate (NKr/$1.00) pd avg	6.74	6.52	6.90
Balance of Payments and Trade			
Merchandise exports (fob)	145,182	152,182	180,500
Exports to U.S. d/	8,244	8,967	12,500
Merchandise imports (cif)	151,516	154,360	150,500
Imports from U.S. d/	10,288	10,013	12,000
Trade balance	(6,334)	(2,178)	30,000
Net invisibles	(21,310)	(21,688)	(20,000)
Current account balance	(27,644)	(23,846)	10,000
International reserves	91,317	91,467	96,000
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
Net external debt e/	99,000	126,000	120,000
central govt	8,077	19,500	15,000
Debt servicing f/	47,479	53,600	57,000

a/ 1-month NIBOR
b/ national savings/national disposable income
c/ gross fixed investment/GDP
d/ Norwegian trade statistics
e/ foreign assets minus foreign liabilities
f/ total interest and principal paid by private and public sectors

NORWAY

1. General Policy Framework

Energy remains Norway's predominant resource base, with no major changes expected in the next decade. Offshore, the country has crude oil reserves estimated as sufficient to last some 25 to 30 years and enough natural gas to last about 100 years. On the mainland, the availability of abundant hydropower supports energy intensive industries such as metals and fertilizers. Norway's long coastline boasts significant fishery resources, while the mainland has ample timber to support an export-oriented pulp and paper industry. The country's small population of 4.2 million limits its human resource base, and both high wages and a restrictive immigration policy limit its flexibility in increasing industrial competitiveness.

Norway's mountainous geography has made the development of both industrial and transportation facilities difficult and costly. Since the country is long and narrow, with population centers few and far between, marketing is expensive compared with most other European countries. The petroleum sector, and the associated service industries, will likely represent the engine of economic growth for the next several decades, although energy-intensive and export-oriented industries such as metals and chemicals will likely remain prominent. Several sectors producing for the domestic market remain inefficient and supported by subsidies, and these will likely experience a painful period of adjustment in the years ahead because the Government will need to continue to reduce subsidies due to budgetary pressure, and Norway's economy will be affected by economic developments elsewhere in Europe.

Norway has opted for an egalitarian welfare state which redistributes incomes through taxes and subsidies. State intervention in the economy is significant and the major industrial groups--Statoil and Norsk Hydro--remain state controlled. Moreover, restrictions are maintained on foreign ownership of Norwegian financial institutions. Looking ahead into the 1990s, it is realistic to expect some lessening of government intervention and control as the Government attempts to adapt the Norwegian economy to the increasingly integrated world economy and to the EC. Moreover, greater global economic deregulation could pave the way for increased privatization of state enterprises.

During the past decade, the Government's dependence on petroleum revenue has increased. On the expenditure side, the most significant development was a rise in subsidies and social programs, financed by the petroleum revenues. After 1986, budgetary pressures increased significantly due to the fall in oil prices. Although prices have recovered somewhat, the current recession has prompted stimulatory spending and the budget deficit, financed mainly by borrowing, has continued to increase. No general tax incentives exist to promote investment, although tax credits and government grants are offered to generate more investment in northern Norway. Accelerated depreciation allowances are available to the shipping industry. Some tax reductions may be instituted in the near future but the extent of such cuts will be limited by the high cost of public welfare programs.

The Government of Norway controls the growth in the money supply through reserve requirements imposed by banks, open market operations, and the Central Bank discount rate. The Government strives to maintain a stable exchange rate, thereby limiting its ability to use monetary policy to further domestic policy ends.

2. Exchange Rate Policy

Although Norway is not a participant in the European Monetary System, since December 1978 the krone has been pegged to a trade-weighted basket of currencies. As a result of a devaluation in May 1986, the average value of the krone fell by approximately 3.5 percent from 1986 to 1987. Since then, the Norwegian currency has remained stable on a trade-weighted basis. While Norway has regulations in force restricting the transfer of local currency out of the country, U.S. companies operating here have reported no problems remitting payments.

3. Structural Policies

Any discussion of Norway's economy must begin with oil and gas which, over the last decade, have accounted for between 10 and 20 percent of Norwegian GNP (depending upon oil prices). Given the volatility of the energy market and the weak health of the country's traditional industries, many analyses suggest that Norway must restructure its economy to make other sectors cost-competitive. Non-oil exports (i.e., metals, paper, and pulp) did increase strongly in 1989, although some of the rise was attributed to price changes. Norwegian-owned ships, which had abandoned the country's traditional ship register, are returning because of Norway's new international shipping register, replete with tax breaks and relief from national crew requirements.

4. Debt Management Policies

Norway has embraced a cautious foreign debt policy to limit the state's exposure in foreign markets. The net external debt of the Government presently stands at less than NKr 30 billion. The Government's stated policy is that the private sector should cover the bulk of financing requirements related to Norway's external deficits. In the past, this policy has contributed to high domestic interest rates, and a rapid increase in short-term foreign private debt. In a policy shift in 1989, the Government has allowed increased long-term private borrowing to facilitate improvements in the term-structure of its foreign debt. It is estimated that Norway's total net foreign debt decreased to some NKr 120 billion by end-1989, from NKr 127 billion a year earlier, thanks to improvement on external accounts.

NORWAY

5. Significant Barriers to U.S. Exports and Investment

Norway vigorously supports the principles of free trade and is quick to condemn protectionism. In general, U.S. exporters experience few problems doing business in Norway. Nonetheless, some areas of tension exist. Import restrictions and producer subsidies cover a wide range of agricultural products. Marketing restrictions on apples and pears have been a major point of contention between Norway and the United States. A June 1989 GATT panel report requires Norway to eliminate the present "opening date system," which allows U.S. apples and pears into Norway only after most Norwegian fruit has been sold. The need for agricultural reform, however, is accepted widely in Norway and Norwegian fruit and vegetable markets could become more open in the near future.

The United States would like Norway to liberalize its procedures for regulating telecommunications terminal equipment. Despite stated plans to liberalize part of the telecommunications market in 1987, Norway still maintains regulatory procedures that limit market access for U.S. telecommunications equipment. The Norwegian Telecommunications Regulatory Authority, a separate approval authority under the auspices of the Ministry of Communications, has the responsibility for approving and testing all telecommunications devices used in Norway. Even equipment that does not use public networks or airways must be certified. This process is slow and costly and adversely affects companies that wish to offer new products. Further, Norway has expanded the definition of terminal equipment to include any equipment attached to audio, data, video, and other networks. These new regulatory procedures have hurt U.S. exports.

Effective January 1, 1985 foreign banks were allowed to establish subsidiaries in Norway, as long as their country of incorporation accorded Norwegian banks reciprocal rights. Before a foreign bank can establish a subsidiary, however, it must first obtain a concession from the Ministry of Finance. In 1985 and 1986, Norway granted concessions to nine foreign banks (three from the U.S.), which was the first time foreign banking operations had been allowed in Norway. Further deregulation of foreign banking activity appears to have stalled, as the Government wishes to evaluate the operations in Norway of the nine foreign banks before approving any additional concessions. The Government has stated that, as a general rule, foreign banks would receive the same treatment as Norwegian banks. There are, however, three major exceptions to this rule: (a) foreign banks are required to operate through subsidiaries rather than branches; (b) foreign banks need permission from the Ministry of Finance before they can invest in finance companies; and (c) foreign banks which want to form a subsidiary with a local bank must put up at least 50 percent of the share capital.

NORWAY

In addition to restrictions on foreign banks, Norway maintains reservations to the OECD Code of Liberalization of Capital Movements with regard to inward direct investment. Foreign ownership is limited in air transport, finance companies and brokerage houses, and flag and fishing vessels. Code reservations also reflect certain restrictions on the establishment of foreign financial services houses, branches of foreign insurance companies, travel agencies and tour operators, and acquisition of, and certain leasing rights to, mines and waterfalls and other real property.

6. Export Subsidy Policies

As a general rule, the Government of Norway does not subsidize exports, although there are exceptions; for example, non-Norwegian buyers of Norwegian-built ships may be accorded subsidized interest rates, and below-market rate interest credits are offered for exports to developing countries. The OECD has been notified of both of these practices. Indirectly, the Government supports exports of chemicals and metals by subsidizing manufacturers' electricity tariffs. In addition, the Government provides funds to Norwegian companies for export promotion expenses.

7. Protection of U.S. Intellectual Property

Norway is a signatory of the main intellectual property accords, including the Berne Copyright and Universal Copyright Conventions, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty.

Norwegian officials believe that counterfeiting and piracy are the most important aspects of intellectual property rights protection. They complain of the unauthorized reproduction of furniture and appliance designs, and the sale of the resultant goods in other countries, with no compensation to the Norwegian innovator. The Norwegians prefer handling the question within the GATT--as opposed to the WIPO--framework. Rules against counterfeiting and piracy, they add, should contain special protections for small, specialized manufacturers.

The Government recently changed patent regulations to provide for product patents for pharmaceuticals, effective January 1, 1992. Only process patent protection is presently provided to pharmaceuticals in Norway.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. The Government has the right to invoke compulsory arbitration under certain circumstances with the approval of Parliament.

b. The Right to Organize and Bargain Collectively

All workers, including government employees and military , have the right to organize and bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by law and does not exist.

d. Minimum Age of Employment of Children

Children are not permitted to work full time before age 15. Minimum age rules are observed in practice.

e. Acceptable Conditions of Work

Ordinary working hours do not exceed 37.5 hours per week, and 25 working days of paid leave are granted per year (31 for those over 60). All workers are assured a minimum wage, with standards set by the Government within each industry.

The Workers' Protection and Working Environment Act of 1977 assures all workers safe and physically acceptable working conditions. Under this Act, committees composed of management, workers, and health personnel must be established where 50 or more are employed, and safety delegates must be elected in all organizations. The Labor Inspections Directorate ensures effective compliance with labor laws.

f. Rights in Sectors with U.S. Investment

With 60 percent of its workforce unionized, Norway has a tradition of protecting worker rights in all industries. Among goods-producing sectors, U.S. investment is mainly in the petroleum sector, although there are smaller investments in the food, machinery, and wholesale trade sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		3,276
Total Manufacturing		86
Food & Kindred Products	2	
Chemicals & Allied Products	-12	
Metals, Primary & Fabricated	-1	
Machinery, except Electrical	8	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	40	
Wholesale Trade		350
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,712

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

POLAND

Key Economic Indicators

(Billions of zlotys (Zl) unless otherwise noted)

Income, Production and Employment	1987	1988	1989 (est) 1/
Real net material product (NMP) (bils 1984 Zl) 2/	7,519.7	7,884.7	7,727.0
Real NMP growth rate (pct)	1.9	4.9	(2.0)
NMP by sector (pct) 3/			
Industry	48.6	48.1	--
Agriculture	13.2	14.2	--
Construction	12.9	12.8	--
Transport/communication	6.0	5.9	--
Trade and misc	19.3	19.0	--
Real NMP per capita (1984 zlotys) 4/	199,652	208,248	203,000
Labor force (1,000s)	17,245	17,129	16,500
Unemployment rate (pct) 5/	.03	.03	--
Money and Prices			
Money supply (M1) (yr-end)	2,092.3	3,774.5	12,000
Central Bank discount rate (pct)	4.0	6.0	6/
Investment rate (pct NMP)	26.7	26.0	--
Savings rate	17.1	14.8	--
Consumer price index 7/	25.3	61.0	400
Wholesale price index	25.6	63.0	--
Exchange rate (Zl/$)			
Official (yr avg)	265	431	1,000
Parallel (yr-end) 8/	1,450	3,550	5,000
Balance of Payments and Trade (mils $) 9/			
Total exports FOB	12,205	13,960	9,757
Exports to U.S.	329.7	417.1	480
Total imports CIF	10,844	12,243	8,324
Imports from U.S.	238.8	303.7	425
Aid from U.S.	3.1	6.8	11.7
External public debt 10/	39,200	39,200	37,800
Annual debt service payments	1,700	1,732	1,400
Forex reserves (yr-end)	1,800	2,000	2,000
Current account deficit	392	563	2,000

1/ 1989 estimates are highly tentative, in light of rapidly accelerating inflation since August.

2/ Net material product (NMP) is gross domestic product (GDP) less depreciation and the value added of non-material services, plus non-material services used as inputs in material production. The Polish Statistical Office recently introduced a GDP measure which conforms to international standard national account defininitions. The most recent data are for 1987, when GDP was 16,939.9 billion zlotys (or 9,582.4 billion 1984 zlotys), a change of 2.0 percent from 1986.

POLAND

3/ Net material product does not include the value of non-material services. The share of this component in the 1987 GDP estimate was 14.5 percent.

4/ 1987 per capita GDP was 449,334 zlotys, at current prices.

5/ These data represent the percentage of labor force which is registered as seeking employment. Although actual unemployment is negligible, Poland suffers from hidden unemployment in the form of underemployment or redundant workers. While there are also many positions available, labor mobility is restricted due to severe housing shortages.

6/ The discount rate was 44 percent from January to July, 72 percent from August to October and 100 percent from November to December.

7/ These price indexes measure the rise in average price levels recorded in a given year compared to average levels during the preceding year. Poland does not officially report price growth on a December versus January basis, although it is believed that inflation calculated on that basis will approach 1,000 percent during 1989.

8/ The free market exchange rate rose to 13,000 zlotys per dollar in September 1989, but stayed there only briefly. In early November it stood at around 6,500 zlotys per dollar.

9/ Data on Polish trade have been converted to dollars at the official rate of exchange, which is not a market rate. Furthermore, estimates for 1989 are difficult to interpret since the official exchange rate was devalued by over 300 percent between January and October.

10/ The 1989 figure is Poland's hard currency debt as of August 31, 1989. The hard currency debt decreased in statistical terms during 1989 reflecting the appreciation of the U.S. dollar against other currencies. Poland also has an external debt of 6.4 billion transferable rubles with members of COMECON. In addition, a part of Poland's debt to the Soviet Union is denominated in hard currency; this is believed to total about $1 billion.

Sources: All data are from Polish Government statistical publications and statements, with the exception of trade figures with the United States, and U.S. aid to Poland, taken from U.S. Government sources.

1. General Policy Framework

Four decades of communist rule in Poland came to an end in 1989, and with it died any pretense of resurrecting Poland's moribund centrally-planned economic system. The solidarity-led government of Prime Minister Tadeusz Mazowiecki, which rules in coalition with three other parties including the Communist Party, has pledged to reform and rebuild the Polish economy by broadly applying free market principles. A major element will be the sale of a number of the state-owned enterprises which have dominated the Polish economy since the end of World War II. The new government also intends to decentralize decision-making and rely on market-clearing prices to allocate resources, effectively putting an end to Soviet-style central planning and heavy use of government subsidies. By 1991, the Poles intend to have a convertible domestic currency, a capital market, restructured banking and tax systems, a flexible labor market, and anti-trust laws to stimulate competition among both domestic- and foreign-owned firms.

Poland's attempt to transform itself from a centrally-planned to a market economy has no historical precedent, and the Mazowiecki government is fully aware of the profound conceptual, institutional and financial barriers that must be overcome. Further complicating the effort is the performance of the Polish economy, which faltered throughout 1989. The Government budget deficit for the year is almost five times larger than was projected in January. The decision of the former Rakowski government to meet expenses by simply printing more bank notes swelled the money supply. Direct subsidies to enterprises as well as implicit subsidies conferred through negotiated tax relief and the failure to collect longstanding tax arrearages further undermined budget discipline. One of the final acts of the previous Government was to remove price controls on agricultural goods, effective August 1, 1989, after which inflation soared to about 40 percent monthly. The Mazowiecki Government has acted quickly to rein in inflation and cut the deficit by slashing the largest subsidies. But true price reform still hinges on the new Government's campaign to break-up state monopolies and eliminate subsidies.

A new law on private enterprises went into effect on January 1, 1989. Since then, approximately 200,000 new private enterprises have been registered in Poland. The private sector share of total production is growing steadily, even though the Government program to privatize state firms has barely begun. In the autumn of 1989, private firms were responsible for 8 percent of Polish industrial production and 24 percent of all construction and building. As has long been the case, about three-quarters of Polish agricultural production is on privately-owned farms.

The share of foreign trade in Poland's economy is relatively small. The role of the Council for Mutual Economic Assistance (CEMA) countries in Poland's trade has decreased in recent years. In 1988, only 47 percent of total trade was with the CEMA; this share fell to only 37 percent during the first nine months of 1989. Poland's main socialist trading partners are the Soviet Union (24 percent of total trade during 1988), Czechoslovakia (6 percent), and the German Democratic Republic (5 percent). The leading hard currency trading partners are the Federal Republic of Germany (13 percent), the United Kingdom (5 percent), and Austria (4 percent). Machinery and equipment dominate exports (39 percent) and imports (36 percent), followed by chemical products (11 percent of exports, 16 percent of imports) and fuels and energy (10 percent of exports, 15 percent of imports). U.S. exports made up 2 percent of total Polish imports in 1988. About half of U.S. exports to Poland in 1988 were agricultural commodities and 23 percent were machinery and equipment. The principal Polish exports to the United States are meat, fish, machinery, and textiles.

2. Exchange Rate Policies

On January 1, 1990 the Mazowiecki Government introduced "internal convertibility" of the Polish zloty. A fully convertible zloty is not envisaged in 1990. In conjunction with the introduction of convertibility, Poland devalued the zloty exchange rate to 9500 zl to $1. The Government of Poland is supporting this rate. The parallel market rate stayed below this rate during the month of January 1990.

In addition, the Government ended hard currency central allocation and the holding of hard currency auctions. Enterprises (including joint ventures) are required to sell hard currency holdings to the national bank, but are guaranteed the right to purchase hard currency needed for imports and repatriation of hard currency export earnings. Since March 1989, individuals have been allowed to legally exchange hard currency at free-market rates. The margin between the official and free-market rates has disappeared thanks to both the official devaluations and an appreciation of the zloty free-market rate since the Mazowiecki Government took office.

3. Structural Policies

Pricing Policies: In spite of major steps taken towards liberalization, the price structure of the Polish economy remains distorted. Throughout the 1980s, Poland had three types of prices: regulated, government-set, and contractual. Regulated, or "cost-plus" pricing, which accounted for only a small percentage of goods, has now been done away with completely. Since August 1, 1989, the Government has allowed the market to determine almost all food prices. Skim milk, lowfat cottage cheese and one type of bread are now the only food products which have centrally set prices. The Government continues to set prices for certain essentials such as electricity and gasoline, but it eliminated administered prices to a point where government subsidies and rationing will no longer be required.

Tax Policies: Poland's tax system has long been criticized for its complexity, although this too appears to be improving. The corporate income tax provides about 20 percent of state revenue. Poland has adopted a straightline 40 percent tax for all corporate enterprises, regardless of whether ownership is by public or private shareholders. In addition, as part of its reform program, the Rakowski Government introduced in early 1989 a so-called "dividend" tax levied only on state enterprises. The "dividend" actually takes the form of a property tax or rent assessed at a market-based rate (44 percent in 1989) on assets originally provided by the state. Small private entrepreneurs (businesses which are individually owned rather than incorporated) can be taxed either on a progressive scale (ranging from 25 to 75 percent, with payments not exceeding 50 percent of taxable income) or arrange to pay a lump-sum tax each year based primarily on an assessment of assets.

The Government offers tax incentives for developing new technologies. The sales (turnover) tax, which is paid by enterprises, contributes about 25 percent of revenues. This tax is due to be overhauled and simplified during 1990. Taxes paid directly by individuals account for a very small share of budget revenue (about 6 percent in 1988). The new Government has announced plans to introduce a personal income tax and a value-added tax (VAT). Neither is expected to be introduced until 1991. The Government also has plans to strengthen tax collection efforts.

Regulatory Policies: Poland is decentralizing foreign trade. Under new regulations, any firm is able to engage in foreign trade. The import/export licensing regime has been further liberalized, please see section 5 below.

4. Debt Management Policies

Poland's hard currency debt imposes a formidable handicap on trade. Restricted Western lending and Poland's difficulties in increasing exports create conditions under which the need for Western products far outstrips the country's ability to pay for them. Thus, while many products seem to be in high demand, the sales prospects are often limited. Poland has not serviced its debt in full, even with rescheduling, since 1981. Its trade surplus and inflow of remittances have been insufficient to meet Poland's obligations. The current account deficit totaled $580 million in 1988 and is expected to increase sharply to over $2 billion in 1989.

During 1988, principal and interest payments due on Poland's debt totaled $6.7 billion, while actual payments were limited to $1.6 billion. Hard currency debt stood at $39.5 billion at the end of 1989. The structure of Poland's hard currency debt is unique by virtue of the high percentage of official debt; e.g., debt owed to government entities (such as the U.S. Export-Import Bank and Commodity Credit Corporation and their counterparts in other countries). This official debt accounts for approximately $24 billion, or some two-thirds of the total. The soft currency debt with socialist countries stood at 6.4 billion transferable rubles at the end of June 1989.

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The Paris Club has agreed to reschedule Poland's debt service to official creditors four times in the past eight years. On June 10, 1989 Poland and the United States finally concluded bilateral agreements covering the 1985 and 1987 Paris Club agreements. Poland has now concluded similar agreements with most Paris Club countries, paving the way for the Polish Government to pursue the rescheduling of the debt coming due since January 1989. The new Government has also had successful negotiations with the International Monetary Fund (IMF) to work out an economic adjustment program. Such an agreement will give Poland access to IMF credits, but most importantly will help convince Western governments and the private sector that Poland is taking the hard steps necessary to put its economic house in order. The World Bank has also developed specific projects to expand industrial and agro-business exports, which can be implemented once an IMF agreement is signed.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: The import license system has been liberalized. A import/export license is only required to conduct trade with Poland which involves arms or explosives, trade with CEMA nations, and where export quotas or international treaties are binding (export quotas generally will be applied to all raw materials and to any goods which are in short supply on the domestic market); it is estimated that 50 percent of exports and 10 percent of imports will need licenses. In theory, licensing does not limit the right of an enterprise to choose its commercial partner. Nonetheless, the licensing procedure retains a role for bureaucratic decision-making.

Standards: Requirements for testing, labeling, certification and other standards have not presented a significant barrier to U.S. exports. Existing regulations are being revised in order to better conform to standards set by international organizations. The Ministry of Health's Central Inspectorate of Sanitation inspects and tests food imports to ensure that they meet applicable health standards. The Ministry of Health also regulates the importation of medicines and pharmaceuticals. U.S. companies have not appeared to encounter serious difficulty getting authorization to export drugs to Poland, as long as U.S. or other Western authorities have certified these drugs for sale in their markets. Polish authorities also regulate technology transfers, including the purchase of patents and licensing arrangements. The Government recently abolished a 1985 regulation which required such arrangements to undergo a secondary review by the office of advancement and applications of science and technology. The Government plans to adhere to the GATT Standards Code in 1990.

Services Barriers: Under the Banking Law enacted in 1989, foreign commercial banks are permitted to establish a bank in

Poland as a joint stock company, either with the participation of a Polish enterprise, or with 100 percent foreign ownership. A permit to operate is required from the President of the National Bank. The Law also permits foreign banks to open a branch or representative office in Poland; in this case, a permit must be obtained from the Minister of Finance. To date, no foreign-owned banks have been established in Poland. Two German banks have opened branch offices. Poland's civil law restricts the activities of private banks, whether foreign or domestically owned. The new Government is committed to revising these laws and regulations to grant private banks the same rights as state-owned banks. Applications to set up private banks have been approved, including at least one involving no foreign capital. Longstanding government monopolies in other services trades, such as insurance and cinema, still inhibit foreign participation, although some competition has begun to emerge.

The emergence of competition should be strengthened by the Mazowiecki Government's plan to break up state monopolies and develop anti-trust regulations. At least one private insurance company has begun operations with considerable fanfare and a number of privately-held joint stock banks have quietly opened for business (six such banks have been granted permission to operate). Foreign entry into these areas is regulated but not legally barred. Foreign companies have already begun to play an active role in the provision of services to tourists, particularly through involvement in the hotel industry. Private travel agencies have also started to boom, but foreign entry is still regulated by the Ministry of Internal Market and it is unclear to what extent foreign companies are free to compete for these services.

Investment: A new law on foreign investment, which took effect in January 1989, and amended in December 1989, has significantly improved the legal climate for investment. The new law introduces the following major changes:

- foreigners are now permitted to set up wholly-owned subsidiaries;

- top management no longer need be Polish;

- joint ventures are now possible with private firms and individuals, not just with state firms;

- the tax rate has been reduced from 50 to 40 percent and tax holidays have been extended from two to three years with a further three years possible in priority sectors.

A new agency for foreign investment created by the law must approve foreign investment proposals, but only 2 of 800 application for foreign investment were refused in 1989 -- both on environmental grounds. Other grounds for refusal are national security and national economic interest. Foreign investors are still required to hold at least 20 percent of the capital stock of any venture, with a minimum contribution of 25 million zlotys.

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While excess hard currency earnings, royalties and interest can be repatriated, the lack of full convertibility of the zloty and the limit of 15 percent on domestic profit which can be repatriated remain barriers foreign investment. Repatriation takes place only after an audit of company books following the end of the calender year. Exporting is the major venue for recouping a hard currency profit. The new Government has announced plans to introduce internal convertibility (leaving certain capital controls in place) during the first half of 1990, which will address the issue of repatriating profits.

Other significant barriers include inadequate banking and telecommunication facilities, lack of accounting firms and standards, and shortages of available premises and essential supplies. A 1924 law prohibits foreigners from owning property in Poland, but the Ministry of Finance is currently reconsidering this prohibition. In other areas, foreign investors actually enjoy better than national treatment. For example, Polish companies earning hard currency must sell between 50 and 90 percent of such revenues to the Polish treasury for zlotys; in the case of foreign-owned firms, the requirement is 15 percent.

The Support for Eastern European Democracy Act of 1989 (SEED) authorized extension of Overseas Private Investment Corporation (OPIC) coverage for and urged the President to conclude a bilateral investment treaty with Poland. Accordingly, OPIC signed an agreement with Poland in October 1989 providing for the extension of OPIC credit guarantees and political risk insurance to U.S. investors in Poland. The United States has opened negotiations with Polish authorities on a comprehensive business and economic agreement which would include investment protection guarantees and other assurances.

Government Procurement Practices: Government procurement projects are normally submitted for tender. However, the relevant ministries retain their final say in decision-making, thus opening the door to non-commerical considerations. There are no specific requirements for countertrade or purchase of Polish inputs. Nonetheless, foreign suppliers are often under pressure to sweeten large-scale deals by offering co-production or special supply arrangements to Polish enterprises. Poland will begin to implement the General Agreement on Tariffs and Trade (GATT) Government Procurement Code in 1990.

Customs Procedures: Poland introduced a new schedule of import duties in January 1989 which reduced tariff rates on average by one-third. This schedule adheres to internationally recognized harmonized nomenclature. A new law has overhauled the customs system. It now adheres to the principles of the GATT agreement on customs valuation. The new law also removes the distinction between commercial and non-commercial importers. In general, customs requirements do not seem to burden U.S. exporters.

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6. Export Subsidy Policies

Poland actively promotes exports, which are vital to its economic recovery, with a variety of incentives. Through a recently revamped Export Development Fund, the Government provides loans for expansion of export capacities. The Fund also subsidizes export-oriented loans to selected firms. This Fund is self-financing, using receipts from customs revenues, dividends from state-owned foreign trade enterprises and windfall profits earned by exporters who use heavily-subsidized inputs. Polish authorities believe that this fund is compatible with standards set under the GATT. However, Poland is not a signatory of the GATT Subsidies Code. The export tax incentive and compensation for exchange rate differences have been abolished.

7. Protection of U.S. Intellectual Property

Generally speaking, the Polish Government subscribes to Western standards of protection of intellectual property. Poland is a member of the World Intellectual Property Organization and is also a party to the Stockholm revision of the Paris Convention on Industrial Property. Poland is also a party to the Berne Copyright and Universal Copyright Conventions, which specify minimum levels of protection for books, motion pictures and music. The Polish Government is expected to sign the Berne Convention on literary and artistic works in 1990. The Government has stated a goal of upgrading legal protection of software. In general the Government hopes to reach all internationally accepted standards on the protection of intellectual property.

With regard to patents, very few cases of patent infringement have been brought by U.S. firms. Polish patent law does not provide product protection for chemicals, as does U.S. law. This has implications for manufacturers of agricultural chemicals and pharmaceuticals. One known case between a U.S. firm and a Polish firm arising from this fact was settled out of court.

A 1987 Law on Cinematography explicitly extends protection to video cassettes. Existing laws might also extend to protection of computer software, but Polish officials believe that more detailed protection is needed in this area. No cases have yet tested the level of protection of these or other new technologies. Although Polish law requires that satellite dishes be registered with the authorities, the law does not address the question of pirating proprietary satellite signals.

8. Worker Rights *

a. The Right of Association

The roundtable agreement signed in April 1989 cleared the way for Poles to be represented by trade unions or professional associations of their choice. The trade union Solidarity was re-legalized formally on April 17, 1989 after more than six years of outlaw status. Solidarity currently has 2 million members, compared to the 9.50 million in 1981 before martial law. The Communist-inspired trade union, the National Alliance of Trade Unions (OPZZ) claims 7 million members, many of whom were recruited from management.

b. Right to Organize and Bargain Collectively

As noted above, Polish workers now have the right to be represented by a trade union of their choice. During the August 1989 strikes, the Government met with leaders of both Solidarity and the OPZZ to reach wage agreements.

c. Prohibition of Forced or Compulsory Labor

Under legislation dating from the early 1980s, persons who are registered as unemployed and who refuse to seek employment without adequate justification, may be listed as "habitual parasites" and compelled to accept assigned employment, usually in street cleaning, park maintenance, or garbage collection, under threat of penal sanction. Implementation of sanctions under this law is nonexistent in the current climate.

d. Minimum Age for Employment of Children

The Polish Labor Code generally forbids the employment of a person under age 15. The employment of persons 15 to 18 is permitted, provided that they have completed basic schooling. These laws are enforced effectively.

e. Acceptable Conditions of Work

The length and distribution of hours of work meet generally accepted international standards. Paid annual holidays are provided. The Polish Legal Code spells out minimum conditions for the protection of workers' health and safety. There are frequent allegations that some factories fail to maintain government-regulated work, health, and safety standards.

f. Rights in Sectors with U.S. Investment

Thirty-two American firms have opened representative offices in Poland, and U.S. citizens own a number of small-scale businesses under the 1982 "Polonia" Law. The magnitude of this investment, however, is negligible in terms of the sectors represented. Moreover, labor conditions in these sectors do not differ from the general conditions described above.

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No U.S. Department of Commerce data has been compiled on these investments.

* Section 8 is an abridged version of Section 6 of the Poland country report included in the Department of State's _Country Reports on Human Rights Practices for 1989_, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Billions of escudos (Esc) unless otherwise noted)

Income, Production, and Employment		1987	1988	1989 (est)
GDP at current prices		5193	6023	7067
GDP at 1987 prices		5193	5411	5682
Real GDP growth (pct)		4.3	4.2	5.0
GDP by sector 1986 data (pct)				
Agriculture	9.0			
Industry	39.3			
Services	51.7			
GNP annual per capita (thous Esc)				
Factor cost		449	514	605
Real GNP per capita growth (pct)		3.8	4.4	4.2
Labor force (thousands)		4530	4606	4710
Unemployment rate (pct)		7.9	6.7	5.3

Money and Prices

	1987	1988	1989 (est)
Money supply (M1)	1487	1696	1866
Commercial interest rates (pct)			
Central bank discount	14.5	13.5	14.5
Loans (avg)	18.5	19.0	21.5
Deposits (180-days to 1-yr)	14.0	13.0	13.0
Savings gross rate (pct of GDP)	28.9	28.5	28.6
Investment gross rate (pct of GDP)	27.7	30.1	30.4
Consumer price index (ann avg pct chg)	9.3	9.7	13.0
Exchange rate - yrly avg (Esc/$)	141	144	159

Balance of Payments and Trade (mils $)

	1987	1988	1989 (est)
Total exports FOB	9298	10637	12445
Total exports to U.S.	598	637	831
Total imports CIF	13938	16768	18378
Total imports from U.S.	672	735	822
Aid from U.S.	89.7	32.0	75.0
Aid from other countries	377	731	n/a
External public debt 1/	6102	5889	5383
Public debt service payments 2/	1800	2984	912
Gold and forex reserves 3/	9962	12976	16440
Balance of payments on current acct	444	(654)	(900)
Goods and services	(3331)	(4949)	(4300)
Unrequited transfers	3775	4295	4300
Basic balance	638	189	n/a

1/ Includes only administrative sector, not public enterprise debt. 1989 data is outstanding debt at the end of August.
2/ 1989 data for January through August only.
3/ 1989 data represents stock of reserves at end of June 1989.

Sources: Ministry of Finance, Central Department of Planning, Bank of Portugal, Portuguese Association of Banks, the OECD, National Institute of Statistics, and Embassy estimates.

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1. General Policy Framework

The Portuguese population of 10 million has the poorest living standard in Western Europe. Structural imbalances and low general development characterize the Portuguese economy. Labor productivity is considerably lower than that of other other European Community (EC) countries, particularly in the agricultural sector, and wide gaps separate upper socio-economic groups from those below the poverty line. Contrasts are marked also between the more developed and industrialized coastal regions and the rural hinterland, as well as between modern and traditional economic sectors. The most important manufacturing sector is textile and apparel, responsible for about 20 percent of manufacturing value added and about 30 percent of total exports, and where external competitiveness is based on low wage rates. The external trade of this open economy is mostly conducted with other EC member countries.

Despite high economic growth rates in recent years, important macroeconomic problems persist--a chronic trade deficit (compensated by tourism income and emigrant remittances), a large public sector deficit, relatively high inflation and significant unemployment and underemployment problems. Medium-term economic policy is oriented by the so-called "controlled progress" strategy defined in the External Deficit and Unemployment Structural Correction Program (PCEDED). Its principal goals are modernization of the Portuguese economy by increasing productivity and external competitiveness, control and correction of the external deficit, and reduction of inflation and public sector financing needs. To a great extent, this policy is designed with the European internal market integration to occur by the end of 1992 in mind.

The main objectives of short-term economic policy for 1990 are GDP growth at a rate of 4 percent, spearheaded by a high rate of investment growth (9.25 percent in real terms), restraint of the public sector deficit, an employment increase of one percent, keeping the unemployment rate steady, and resumption of the inflation deceleration trend interrupted in the second half of 1988 (targetted annual average inflation rate between 9.5 and 10.5 percent). Budgetary and fiscal policy balances between two contradictory objectives: decreasing the financing needs of the public sector while securing a high rate of investment. This results in a delicate trade-off that has proven difficult to manage.

The persistent government deficit, attributable to expansionist economic policies in the past and generous social benefits and high government employment, has been financed mostly through commercial bank credit and treasury bonds. Major tax reforms have been implemented in recent years; indirect taxation was reformed in 1986 with the introduction of the value-added tax and direct taxation in 1989 with the replacement of a number of different taxes by only two--one on personal income and the other on business income. These reforms led to greater fiscal administrative efficiency, less tax evasion and increased collections.

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While budgetary policy has acted as a sustaining or expansive factor on economic activity, monetary policy has been used largely to restrain the economy. The Government has applied credit ceilings, which have affected mainly the private sector, administratively fixed interest and discount rates and bank cash reserves and operated in the open market. Monetary policy has been the principal instrument of macro-economic management. With accession to the EC in 1986 and subsequent preparation for the integrated EC market of 1993, the Government is loosening monetary policy, progressively phasing out some administrative controls and leaving an increasing role in economic regulation to the monetary and financial markets . In recent years, money supply has been affected by the inflow of significant amounts of new capital, both from foreign direct investment and EC structural funds.

2. Exchange Rate Policies

Exchange rate manipulation has been an important instrument to promote external competitiveness of Portuguese exports and to control balance-of-payments deficits. After 1985, with the general improvement of the Portuguese economic situation, the trend has been to stabilize progressively the effective exchange rate of the escudo. A crawling peg of 0.25 percent per month (3 percent per year) operated in 1989. An appreciation of the U.S. dollar of about 10 percent is expected for 1989, which should affect price competitiveness of U.S. exports. Based on available figures for January-July, an increase of about 12 percent in 1989 U.S. exports to Portugal valued in U.S. dollars is likely.. In the framework of the future European economic and monetary union, the escudo will join the European Monetary System at an as yet unspecified time. The major obstacle is the inflation rate differential between Portugal and the other EC countries.

3. Structural Policies

Economic planning is oriented by an overall liberalization of markets, driven by the neeed to modernize the economy to more closely approximate its EC neighbors. The major exception to this trend is in the agricultural sector, where pricing is controlled by EC Common Agricultural Policy rules.

Recent revisions of the Portuguese Constituion permit a major program of privatization of firms nationalized after the Portuguese revolution. While privatizations in 1989 of a beverage company, a bank and an insurance company have included only 49 percent of shares, legislation to permit complete privatizations is expected imminently.

In order to help Portugal narrow its overall development lag vis-a-vis other EC countries and reduce its socio-economic structural imbalances, a comprehensive set of European Community assistance programs is currently being implemented. There are three major Community programs specifically designed for Portugal. These are PEDAP (Specific Program for Development of Portuguese Agriculture), PEDIP (Program for Development of Portuguese Industry), and PDR (Regional Development Plan). In addition to these Portugal-specific efforts, Portugal benefits from normal EC supports for backward regions, professional training programs, and agriculture modernization projects. Financing for all these programs comes primarily from Community funds, but Portuguese counterpart funding is required.

4. Debt Management Policies

External debt has been a heavy burden for the Portuguese economy. In 1981, external debt represented 46 percent of GDP, which peaked at 80 percent in 1985. As of August 1989, it had been reduced to an estimated 39 percent. On the other hand, external debt service has increased from 6 percent of GDP and 21 percent of commodities and services exports in 1981 to 26 percent and 75 percent respectively in 1988. Portugal has been following in recent years a policy of prepayment of outstanding public sector external debt. Thus, in 1981 interest represented 58 percent and amortization 42 percent of the total debt service. In 1988 the situation is very different--interest does not exceed 12 percent and amortization exceeds 88 percent of the total debt service.

Debt structure figures for 1988 show that non-financial public enterprises are the main external debtors, accounting for 48 percent of total external debt, followed by public administration, with 33 percent. The non-financial private sector, although increasing its share, accounts only for 12 percent of the total. Portuguese external debt is mostly medium- and long-term (87 percent). By currencies, the greatest share is in U.S. dollars (39 percent), followed by yen (13 percent), German marks (13 percent), ECU (12 percent) and Swiss francs (11 percent).

5. Significant Barriers to U.S. Exports and Investment

Import licenses remain in effect for certain products. Under the EC terms of accession, Portugal is allowed to maintain quantitative restrictions, until December 31, 1992, on the following: selected rubber products; paperboard and paper; selected fabrics and nets; footwear and footwear parts; steel and iron tubes and pipes; weaving machines and electrical goods such as fuses; and plugs, lampholders and switches. Import quotas apply to automobiles, specific import levels are reviewed annually.

Portugal is generally open to U.S. service industries. Three U.S. banks do business in Portugal. For the most part, they report receiving national treatment, and having access to business opportunities as other commercial banks. The Central Bank's formula to establish credit ceilings has been criticized by one U.S. bank, which claims that the formula favors retail banking. The Central Bank accepts the bias in

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favor of retail banking and encourages all banks to benefit equally from this bias/opportunity.

Until 1985, the insurance business was a monopoly of the state. In 1985, the Government opened the industry to private participation and since then local and foreign (two U.S. companies) investors share the market. The Government is currently privatizing key state-owned insurance firms, and has imposed a 5 percent ceiling on foreign participation. Several service sectors are closely controlled by the Government. One U.S. insurance company has reported discriminatory treatment applied to foreign firms in their ability to manage technical reserves.

Private participation (foreign and domestic) is restricted or altogether excluded in certain sectors. These are:

- water distribution for public consumption;
- postal, phone and telex services except for complementary services;
- scheduled air and railway transportation;
- sewage handling/treatment; and
- operation of airports and seaports.

The Portuguese Quality Institute (IPQ) establishes national standards and adopts and implements EC directives on product standards. IPQ is also responsible for product and industry norms, certification and metrology. Portuguese legislation, approved in July 1989, set the base for application of EC Directive 73/23/CEE/Product Safety and Reliability Standards for low-voltage electric products. U.S. exporters of these products have reported significant delays in customs clearance because authorities require that all transactions show that both finished products and spare parts meet IEC standards.

Directive 73/23/CEE also requires that product labeling include the applicable IEC standards and certifications. Imported textiles, apparel and leather goods must carry a mark or label identifying country-of-origin. Textile products and apparel made of combinations of fibers must identify composition on the label by percentage of content.

The Government actively promotes foreign investment through incentives financed by special EC funds and it can supply over half of the total cost of a project in an industry targetted for development. Foreign investors can own up to 100 percent of an entity but are restricted from certain services sectors and from most defense-oriented manufacturing. Industries outside the controlled sectors receive national treatment, though some cases of discrimination have been reported by U.S. firms since Portugal joined the EC in 1986. The U.S. firms involved believe that buyers, project officers and supply officers are instructed to buy "Portuguese" or "European" before considering third-country sources.

Activities in the following sectors require at least 51 percent state ownership: mining and quarrying; fishing; exploitation of mineral waters; nonregular air transport; and international road transport. Activities which require a minimum 60 percent state ownership include public works (except for electrical and mechanical works) and sea transport between Portuguese ports.

Government procurement in Portugal is not transparent. Officials express a determination to introduce the necessary measures to achieve transparency, but few concrete results are yet evident. Claims of favoritism, discrimination, mismanagement and corrupt practices are not infrequent. Adoption of EC rules, as well as government intentions, should improve the situation. The Government no longer encourages countertrade operations. Offset commitments are the most frequent forms of compensation in use at this time. The Government says that offsets are not required, but most recent purchases of military hardware have included offset operations.

Customs practices are often cumbersome, but the system is relatively transparent. Some leftover foreign exchange controls, import license requirements on a few products and non-refundable duties may be a problem for some U.S. exporters. However, these requirements and conditions, as well as a slow-moving customs bureaucracy, apply to all potential exporters to Portugal. Strikes by customs officials create major problems for importers, as well as for import-dependent domestic manufacturers and exporters.

6. Export Subsidies Policies

Portugal does not have a program designed primarily to subsidize exports. Nonetheless, government funding of operating deficits and assumption of debt of state-owned firms in such sectors as steel, petrochemicals, and shipbuilding is a form of indirect export subsidization. In principle, current support for state-owned firms is designed to assist these firms in restructuring to make them attractive for privatization. Agricultural products also continue to receive some subsidies related to the common agricultural policy of the EC.

7. Protection of U.S. Intellectual Property

Portugal is a member of the World Intellectual Property Organization and is a party to the Berne and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property.

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Portugal grants intellectual property protection to domestic and foreign firms and favors negotiation of strong international enforcement in the GATT Uruguay Round.

Patents are granted for 15 years and are not renewable. Enforcement is sometimes weak, but the Government is concerned about violations. Portugal will provide patent protection in 1992 for pharmaceuticals, chemical products, and foodstuffs. Portugal's Patent Law also contains compulsory licensing provisions for insufficient working.

Trademarks are granted for 10 years and are renewable. Duration of copyright is life-of-the-author plus 50 years. computer programs are not explicitly protected under copyright. Unauthorized copying of computer software and video cassettes remains a widespread practice.

In 1989, Portugal was one of the countries identified by the U.S. Trade Representative under Special 301 of the 1988 Omnibus Trade and Competitiveness Act as providing inadequate intellectual property protection. Portuguese legislation in 1989 addressed some of the problems associated with video and audio cassette copying. Bilateral consultations are scheduled for spring 1990.

8. Worker Rights *

a. The Right of Association

The Constitution ensures the right to establish unions by profession or industry. Affiliates of the Democratic Labor Federation, the General Union of Labor (UGT), and the Communist-led Confederation of Portuguese Labor (CGPT), organize workers, elect representatives and publicize their views without management or government interference and exercise their right to strike without difficulty.

b. The Right to Organize and Bargain Collectively

By law and practice, collective bargaining is the rule throughout Portugal, with the exception of small enterprises. Employers and employer associations may only enter into collective bargaining agreements with duly constituted unions. Once an employer association and a union federation have concluded an agreement, individual employers may, with the consent of union representatives, modify non-salary provisions in conformity with local conditions. The Ministry of Employment and Social Security provides mediation services upon the request of both parties.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist in Portugal.

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d. Minimum Age for Employment of Children

Children under age 14 are not permitted to work. Children under 16 may not perform heavy work or night labor. These laws are generally obeyed in practice, although abuses exist.

e. Acceptable Conditions of Work

The national minimum monthly wage in industry and services, established in 1974, is approximately $198.00 and is generally enforced. The average minimum monthly wage is in the range of $223 to $245. The legal maximum workweek is 48 hours; the average is 42 hours, with 21 days of paid leave per year. Compliance with labor regulations is monitored by regional inspectors of the Employment and Social Security Ministry.

f. Rights in Sectors with U.S. Investment

U.S. capital investment is significant in the following goods producing sectors: chemicals and related products; electric and electronic equipment; transportation equipment; and personal care products. Worker rights in these four sectors are essentially the same as in other sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		194
Food & Kindred Products	(D)	
Chemicals & Allied Products	3	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	37	
Wholesale Trade		105
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Portugal country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

SPAIN

Key Economic Indicators

(Millions of pesetas (Pta) unless otherwise stated)

	1987	1988	1989
Income, Production, and Employment			
GDP (mils 1980 Ptas)	17,748,661	18,627,520	19,558,896
GDP growth rate (pct)	5.5	5.0	5.0
GDP by sector (pct)			
Agriculture	6.4	5.3	n/a
Manufacturing	29.7	30.2	n/a
Construction	8.3	8.9	n/a
Services	55.6	55.6	n/a
GDP per capita (1980 Ptas)	454,511	476,675	498,430
Labor force (000s)	14,359	14,639	14,858
Unemployment rate (pct)	20.5	19.5	17.5
Money and Prices			
M1 (bils Ptas)	8,238	9,709	10,971
Prime lending rate (pct)	15.6	15.7	14.5
Savings rate (pct of GDP)	21.9	22.7	n/a
Investment rate (pct of GDP)	21.8	23.8	n/a
Cons price index (1983=100)	137.4	144.0	153.4
Wholes price index (1983-100)	424.9	437.6	n/a
Exchange rate (avg) (Ptas/$)	123.5	116.5	119
Balance of Payments and Trade			
Merch exports FOB (bils Ptas)	4,196	4,686	5,200
Exports to U.S. (pct)	8.2	7.9	7.5
Merch imports CIF (bils Ptas)	6,030	7,040	8,600
Imports from U.S. (pct)	8.3	8.9	10.0
External public debt (bils $)	12.2	12.1	12.0
Debt service payments	n/a	n/a	n/a
Foreign reserves (mils $)	30,172	39,875	44,000
Balalance of payments			
Current account (mils $)	-70.0	-3,690	-11,000

1. General Policy Framework

Spain has experienced a strong, investment-led expansion since mid-1985. Real economic growth has averaged 5 percent per year from 1986 through 1989. The Spanish Government aims for above average economic growth in order to close the economic gap between Spain and its European Community (EC) partners by the turn of the century. Sustained growth is also viewed as the surest remedy for the country's lingering problem of high unemployment.

The market-oriented economic policies implemented by the Socialist Government beginning in 1983, favorable international economic conditions, including the decline in petroleum prices, and Spain's joining the EC in January 1986 established a solid basis for economic growth. EC membership requires Spain to open its economy, modernize its industrial base, improve infrastructure and revise economic legislation to conform to EC standards. Strong economic growth has smoothed the process of integration with the EC.

The strong economic expansion, however, contributed to a resurgence of inflationary pressures beginning in 1988. Combined with appreciation of the peseta and the phased reduction of trade barriers, the expansion also led to a rapidly-growing trade deficit. The Government considers the battle against inflation a top economic priority. The deterioration in the merchandise trade balance is a less urgent concern, because the balance on capital account still registers a large surplus, with huge foreign investment inflows. Nevertheless, measures aimed at taming inflation will also contribute to moderating the trade imbalance. The Government is collaborating with business to promote exports and emphasizes the need for wage moderation and productivity increases to improve Spain's trade competitiveness.

Economic policy makers have relied heavily on monetary discipline to moderate the resurgence of inflation. Some critics argue that too much emphasis has been placed on monetary discipline and not enough on control of government expenditures. Strong growth in credit demand and interest-sensitive foreign capital inflows have made the task of monetary control particularly difficult during the past several years, and monetary growth has often exceeded target ranges. In an effort to make monetary control more effective, the Government imposed additional restrictions on foreign borrowing in 1989, and later imposed credit controls.

The need to upgrade Spain's economic infrastructure, and pressure to improve social services, have induced rapid growth in public spending in recent years. Efforts at budget restraint in 1989 were limited, but the Government has acknowledged the need to moderate the growth of spending in 1990. For the most part, fiscal discipline has come on the revenue side. In the wake of economic growth and tougher tax enforcement, tax collections have grown more rapidly than spending. Consequently, there has been progress in lowering the public deficit from a peak of 7 percent of GDP in 1986 to roughly 2.5 percent in 1989. The target for 1990 is 2.0 percent or less. For the most part, the deficit is financed by government borrowing in domestic markets. Occasionally, the treasury resorts to financing through monetary creation. Regulations require inflationary financing to be offset by market borrowing within the same year. Nevertheless, inflationary budget financing can be disruptive to smooth monetary management, as was the case in early 1989.

2. Exchange Rate Policies

In June 1989 Spain committed the peseta to stabilization within the European Monetary System's (EMS) exchange rate mechanism. The stabilization bands for the peseta were set at the wider six percent on either side of parity rates, like the lira's bands. From the date of entry until October 1989, the peseta remained the strongest currency in the EMS, and the Bank of Spain had to intervene to keep it from appreciating outside its bands.

In October 1989, however, the pattern reversed. The peseta was weakened by speculative pressure after the Bundesbank raised German interest rates and opined that Spain's large current account deficit and higher-than-EC average inflation warranted a devaluation. As long as foreign capital inflows remain high, the Bank of Spain disagrees that a peseta devaluation can be effected without provoking renewed inflation. Consequently, the Bank intervened against the "temporary" speculative pressure to keep the peseta above its parity with respect to the deutschemark.

Over the longer term Spain would accept a devaluation of the peseta, if market conditions warranted. However, the currency would have to depreciate substantially within its current bands for that to be evident.

3. Structural Policies

Joining the EC in January 1986 required Spain to embark on a program to open its economy. Spanish tariffs on imports from other EC members must be phased out by December 1992 and lowered to the EC's common external tariff for imports from non-EC countries. Many non-tariff barriers must also be reduced or eliminated. While areas of dispute remain (see Section 5), the trend is toward a more open economy. The EC program to establish a single internal market has accelerated Spain's integration with the Community; however, Spain seeks to avoid accelerating the dismantling of its trade barriers.

Spain's membership in the EC also required liberalization of foreign investment regulations and the foreign exchange regime. By 1993, complete freedom of capital movement should be established. In July 1989 a securities market reform law went into effect. The reform provides for more open and transparent stock markets, as well as for licensing of investment banking services. Although the reform liberalizes conditions for obtaining a stock brokerage license, it also provides for a transition period lasting through 1992 before the liberalizations will be completely implemented.

Spain recognizes that tax harmonization within the EC will require the Government to place relatively greater reliance on indirect taxation. Excise taxes on products such as tobacco and alcoholic beverages are likely to be raised in the future. Spanish income taxation will also be reformed. A constitutional court decision in 1989 prohibited the marriage tax penalty. In order to comply with the court ruling, the Government delayed 1989 income tax filings until the income tax code could be revised. A more substantial re-drafting of the tax code is to be completed in 1990.

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Faced with the loss of the Spanish feed grains markets as a result of Spain's membership in the EC Common Agricultural Policy, the United States negotiated an enlargement agreement with the EC in 1987 to establish a 2.3 million ton quota for Spanish imports of corn, non-grain feed ingredients and sorghum from non-ec countries. The enlargement agreement expires in December 1990. The agreement provides for a major review of the situation in July 1990. The review will take into account: (1) general trade developments; (2) agreements on agriculture in the Uruguay Round of the GATT; and (3) the status of implementation of Spain's Treaty of Accession. A major U.S. objective of this review will be to ensure continued access for U.S. feedgrains into the Spanish market after 1990.

Spain was obliged under its accession agreement to establish a formal system of import licenses and quotas to replace the structure of formal and informal import restrictions for industrial products existing prior to EC membership. The United States objected that the new import regime for non-EC products was illegal under GATT. On October 21, 1988, in response to U.S. concerns, Spain instituted an automatic, computerized licensing system for Spanish imports of the affected U.S. products. Since the system became effective, no U.S. exporters have reported market access impediments to their products covered under the automatic approval system.

EC membership also required Spain to accept the GATT Standards Code. In practice, Spanish Government procedures to obtain certification ("homologation") for affected products have become less burdensome in the past year. Royal decree 105/88 allows Spanish authorities to permit the importation of products officially certified or bearing a quality mark authorized by another EC government, provided the other EC country's standards are equivalent to Spanish standards, and the importer documents that the product meets the other EC country's standards. Products made in non-EC countries that are in "free circulation" in any EC country receive the same treatment as an EC-origin product. Included in the product categories affected by this liberalization are computer peripherals, typewriters, printed circuits, certain medical and laboratory equipment and programmable robots.

Telecommunications equipment, however, is still subject to the old cumbersome and restrictive certification requirements (see Section 5).

4. Debt Management Policies

Spain's total external debt (both public and private) in mid-1989 was $31 billion. International reserves were $44.5 billion. There is no difficulty servicing the foreign debt. Because domestic interest rates are high, attributable to efforts at monetary restriction, foreign borrowing at lower interest rates is attractive to Spaniards with access to foreign credit. Since this could circumvent efforts at monetary restriction, the Bank of Spain has restricted short-term borrowing, and required non-interest bearing prior deposits on all foreign loans.

5. Significant Barriers to U.S. Exports and Investment

Import Restrictions: Spain maintains a prohibition on the importation of U.S. produce, notably fresh apples, cherries, avocados and grapefruit, based on plant protection arguments. While other EC countries permit imports of these fruits from the United States, the Spanish will not consider changes to their regulations to bring them in line with EC-wide policy until they are fully integrated into the EC. The target date for revising plant protection regulations is 1991 or beyond.

Processed Food Standards: Unreasonably strict regulations on processed food imports are a significant barrier to imports. Spanish regulations prohibit the importation of processed food products for which the Government has not previously approved ingredients, additives (including coloring and flavoring matters) and labels. Moreover, food products must conform to Spanish standards and be registered by importers with health authorities prior to entry. Shipments not in compliance with Spanish regulations are subject to detention and must be destroyed or re-exported.

Soybean Oil: Spain maintains a soybean oil quota and consumption tax. The proceeds of the consumption tax subsidize the export of soybean oil in excess of domestic consumption. The Spanish soybean regime displaces U.S.-origin soybean in third markets as well as in Spain. Despite U.S. complaints, Spain has yet to liberalize its soybean oil policies to a significant extent. Spain is expected to do so by 1991, as called for in its EC accession agreement.

Telecommunications: The Spanish Government enacted a General Telecommunications Law (LOT) in December 1987 which established the general framework for telecommunications policy and regulation of telecommunications services in Spain. The law preserves the monopoly of the Spanish National Telephone Company for final and carrier services but allows for the liberalization of certain customer premise equipment and value-added services. The language of the law, however, is too general to indicate the extent of liberalization which will be permitted. The law does not clearly distinguish between basic and enhanced services and reserves some enhanced services for the national monopoly. The implementing regulations to the LOT will establish which services and equipment can be offered competitively and the timetable for their liberalization. The LOT also creates the possibility of re-regulating enhanced services initially opened to competition. U.S. companies believe the possibility of re-regulation is a major investment disincentive. U.S. companies are also concerned about the provision which would limit foreign investment to no more than 25 percent participation in companies offering telecommunications services.

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Government Procurement Biases: The Spanish Government looks to the EC Commission as well as other EC member states in establishing the policies and timetable for liberalization of purchase of goods and services in Spain. Spain has not yet implemented fully the GATT Government Procurement Code. In particular, it has not completed the list of Spanish entities to be covered by the Code. In the meantime, major procurement decisions by national entities are generally made according to the following order of priority, although there are no discriminatory legal requirements: (1) locally-made products; (2) EC products; (3) U.S. and other non-Asian products; and (4) products from the Far East.

Offset and local content requirements are an established feature of all major Spanish military contracts. They are also becoming more common in large civilian government contracts. Typical offset commitments for military sales reportedly range from 100 to 130 percent of the purchase price. The recent winning proposal in a civilian satellite communications tender included offset commitments of almost 40 percent of the purchase price.

Television Broadcasting Quotas: Program restrictions are contained in recent legislation authorizing private television in Spain. The legislation includes restrictions on non-EC programming to be shown on private television, including movie quotas, as well as restrictions on foreign ownership of the three authorized private television concessions. These restrictions, which are aimed at developing the local Spanish program industry and encouraging Spanish language productions, follow the European trend of a preferential quota for European programming. The EC Broadcast Directive was approved subsequent to the passage of the Spain's "quota" legislation."

Although the principal government-owned television network currently shows more U.S. programs than the quota restrictions on private channels would permit, private network licensees expect that the Government television networks will eventually adhere voluntarily to private television program quotas. Given their strong acceptance both on television and in movie theaters, U.S. programs likely would have substantially greater sales opportunities without the quota restrictions.

Motion Picture Dubbing Licenses and Screen Quotas: Spain requires issuance of a license for dubbing each non-EC film distributed domestically. Dubbing is deemed essential since dubbed movies are commercially more successful in the Spanish market than subtitled original language films . To obtain a dubbing license, distributors must contract to distribute a Spanish film. Spain also continues to enforce screen quotas requiring movie theaters to show at least one day of EC films for every day of non-EC films shown.

While generally encouraging foreign direct investment and permitting repatriation of earnings on foreign capital, Spain retains some restrictions, including those governing acquisitions of controlling interests above 50 percent, on national defense-related investments, and on purchases by foreign governmental entities. The Law on Foreign Investment gives the Government explicit authority to screen and block foreign investment in such sectors as gambling, radio and television, air transport, telecommunications, strategic minerals and national defense. The Government has broad power to block investments that might cause economic damage because of their size, nature or target or that endanger the national security.

6. Export Subsidies Policies

In order to promote exports and increase its commercial profile, particularly in Latin America, Spain is making increased use of "tied aid" credits. However, Spain's increased commitment to export support is consistent with the OECD arrangement on officially supported export credits.

7. Protection of U.S. Intellectual Property

Spain is a party to the Berne Copyright, Paris Industrial Property, and Universal Copyright Conventions and the Madrid Accord on Trademarks.

Spain has adopted new patent, copyright, and trademark laws, as it agreed to do at the time of its EC accession. It enacted a new patent law in January 1986, a new copyright law in November 1987, and a new trademark law in November 1988. All approximate EC levels of intellectual property protection. Although improvements were being made, enough concern remained to earn Spain a place (along with 16 other countries) in May 1989 on the "Watch List" of countries judged to have inadequate intellectual property rights protection under the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act. Since then, the Spanish software trade association has obtained a court-ordered seizure of pirated software, and a suit by the U.S. business software association has resulted in a criminal investigation of the major private company accused in the suit of unauthorized copying.

The new patent law greatly increased the protection accorded to patent holders. While only process patent protection is available for pharmaceuticals until 1992, implementation is making this as similar to product patent protection as possible.

The new copyright law attempts to redress historically weak protection accorded movies, home video cassettes, sound recordings and software. It specifically includes computer software as intellectual property, unlike the prior law. Judicial sanctions for copyright violations have been toughened. According to industry sources, the law provides a clear legal framework for copyright protection.

The trademark law incorporates by reference the enforcement procedures of the patent law, defines infringement of trademarks as unfair competition, and creates civil and criminal penalties for violations. It is intended to permit enforcement efforts that are more rapid and effective than those in the past. U.S. makers of chemical and pharmaceutical products here seem less concerned than previously, although they still claim losses from locally-pirated products at about 10 percent of the market.

U.S. software producers complain of losses from business software piracy. Others note that piracy continues in Spain's video cassette market, although government estimates show that such piracy has declined sharply. Another common abuse is for operators of small neighborhood cable networks, called "community video," to broadcast programs without broadcast rights. However, the Government has prohibited them from running cables across public ways.

For their part, trademark holders denounce infringement of their rights in Spain, particularly in the textile and leather goods sectors.

Government officials state that their new laws reflect genuine Spanish concern to protect intellectual property effectively. The new copyright law is proving useful in alleviating abuses of authors' rights. For example, the motion picture industry reports a much-improved ability to secure court orders against abuses since the copyright law was enacted. Moreover, during the consultations held in June 1989 with the U.S. Government regarding the Special 301 "Watch List," Spanish officials noted that they have reduced video piracy to less than 20 percent of the market from 70 percent in 1988 by using a special police unit and stiffer penalties. They expected that pirated material will have declined to less than 7 percent of the market by the beginning of 1990.

The Government is supporting a crackdown on software piracy by instructing prosecutors to call for rigorous enforcement and by urging private industry to pursue pirates aggressively through the courts. The civil authorities are attempting to regulate cable systems and are moving to restrict community video. While the Government has made progress, infringement of author's rights persists. As public and private enforcement actions proceed, the effectiveness of the new laws and the Government's resolve to reduce significantly intellectual property theft will become apparent.

8. Worker Rights *

a. The Right of Association

All workers except military are entitled to form or join unions of their choosing without previous authorization. The only requisites are a group of more than two persons, and registration with the Ministry of Labor and Social Security. Under the Constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the Government and freely maintain ties with recognized international organizations. About 11 percent of the work force is unionized.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively was established by the Workers' Statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military, in 1986. The first civil service trade union representation elections took place during in late 1987. Collective bargaining is extensive in both the private and public sectors. Labor relations in free trade zones and export processing zones are regulated in the same manner as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is outlawed in Spain and is not practiced. The legislation is enforced effectively.

d. Minimum Age for Employment of Children

The legal minimum employment age under the Workers' Statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement, which is effective in major industries and the service sector. It is more difficult to control on small farms and in family-owned businesses. The Statute also prohibits employing persons under 18 at night, during overtime, or in hazardous work.

e. Acceptable Conditions of Work

Workers in general have substantial, well-defined rights. A legal work week is 40 hours, with 12 holidays and a month's vacation paid per year. The legal minimum wage for workers over 18 is $380 per month (14 months). The average worker's salary is $1,000 per month plus (14 months). The minimum wage is revised every year according to the consumer price index. Government mechanisms exist for enforcing working conditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome and inadequate.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in the petroleum, food, chemicals and related products, primary and fabricated metals, machinery, electric and electronics equipment, and wholesale trade sectors. Workers in those sectors enjoy all the rights guaranteed under the Spanish Constitution and by law.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		96
Total Manufacturing		2,626
Food & Kindred Products	488	
Chemicals & Allied Products	571	
Metals, Primary & Fabricated	161	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	29	
Transportation Equipment	237	
Other Manufacturing	(D)	
Wholesale Trade		757
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,479

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Spain country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

SWEDEN

Key Economic Indicators

(Billions Swedish kronor (Skr) current prices unless noted)

	1987	1988	1989
Income, Production, and Employment			
Real GDP (1985 prices)	907.8	930.3	951.0
Real GDP growth rate (pct)	2.6	2.5	2.2
GDP by sector 1/			
Farming and fishing	12.6	12.3	12.5
Forestry	14.7	14.6	15.1
Mining/manufacturing	197.1	203.7	201.2
Public utilities	24.9	23.6	23.8
Construction	53.7	55.2	57.8
Services	32.5	35.1	36.1
Real per capita income 2/	108,200	110,219	112,535
Labor force (000s)	4,419	4,470	4,523
Unemployment rate (pct)	1.9	1.6	1.3
Money and Prices			
Money supply (M3) 3/	568.9	616.2	612.0
Comm'l interest rates 4/	11.84	11.43	11.55
Savings rate (pct) 5/	- 2.4	- 3.1	- 1.1
Investment rate (pct) 6/	19.3	19.9	21.0
Consumer prices (pct chg) 7/	4.2	5.8	6.5
Producer prices (pct chg) 8/	2.6	6.3	8.2
Exchange rate (Skr/$1.00)	6.33	6.13	6.42
Balance of Payments and Trade			
Total exports FOB	281.4	304.8	340.8
Exports to U.S.	30.1	30.1	n/a
Total imports CIF	257.4	280.2	311.4
Imports from U.S.	17.8	21.0	n/a
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External public debt 10/	121.1	106.8	101.7
Debt service payments 11/	12.1	13.6	14.8
Forex reserves 12/	50.3	53.7	73.9
Balance on current account	-7.0	-15.3	-21.8

1/ Value added, 1985 prices.
2/ per capita gross national product in kronor, 1985 prices.
3/ Year end and 09/30/89. Includes treasury discount notes held by public plus accrued monies in deductible national savings scheme. The Central Bank does not compile M1.
4/ Industrial bonds, 30-month adjusted rates, percent. Annual averages and average for first 8 months of 1989.
5/ Ratio of personal saving to disposable personal income.
6/ Ratio of gross investment to GDP.
7/ Change between annual CPI averages.
8/ Product prices for total industry, excluding shipbuilding.
9/ Swedish kronor (Skr). Average annual market exchange rate for $1.00. Official estimate for 1989.

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10/ Central government position at year end and 06/30/89 at prevailing exchange rates.
11/ Interest and amortizations on central government external funded debt. For 1989, a forecast.
12/ Year end and 09/30/89.

Sources: Swedish Ministry of Finance, Economic Research Institute, Swedish Central Bank statistics Sweden.

1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living and an extensive social services system. Situated in northwestern Europe with a climate like that of Minnesota, the country is slightly larger in area than California but with a population of only 8.4 million people. Sweden is a constitutional monarchy with a parliamentary form of government. With the exception of non-Socialist governments 1976-82, the country's Social Democratic Party has been in power since the early 1930s. Sweden has a modern distribution system, excellent internal and external communications, and a skilled and educated work force. Timber and hydroelectric power are the traditional resources of the economy.

Approximately one-third of GDP is exported; consequently Sweden is a strong supporter of liberal trading practices. Privately-owned firms account for nearly 90 percent of industrial output, with the engineering sector, which includes the production of electrical and transportation equipment, machinery, and metal goods, accounting for nearly half of all industrial production and exports. Much of the high-technology component of this production, which is growing, derives from U.S. technology. Approximately 500 industrial firms in Sweden are wholly-owned or controlled by foreign entities. They employ around 125,000 people, or 15 percent of jobs in industry. The largest foreign investors in Sweden are Switzerland, Finland, the United States, the United Kingdom, and the Netherlands. Sweden ranks fourth highest among the industrialized countries in research and development expenditure as a percentage of GDP.

Swedish firms are prospective customers for U.S. companies that can offer new technology, as well as quality goods and services, in a number of growth industries. These include automation robotics, process control equipment, computer software), health-related industries (pharmaceuticals, biotechnology and medical equipment), and information technology (telecommunications systems, data processing equipment, and peripheral systems).

The country is a signatory to the General Agreement on Tariffs and Trade (GATT), is a member of the OECD and the European Free Trade Association (EFTA), and its industrial products enjoy duty-free access to the European Common Market (EC). There is a consensus to achieve as harmonized a relationship with the EC as possible, short of actual membership, which is ruled out because of longstanding neutrality considerations.

Domestic economic policy goals are aimed at maintaining full employment, generating economic growth, promoting a more even distribution of income, and striving for a reasonable degree of price stability. The policy instruments used to achieve these goals are the traditional monetary and fiscal ones, as well as an active labor market policy (retraining and structural adjustment) and regional development policy (subsidies to economically weak areas). These policies, together with considerable aid to ailing sectors of industry over the past decade, inflated the country's national debt from approximately 20 percent of GDP in the early 1970s to a peak of almost 70 percent in the mid-1980s. Since then, the debt declined somewhat to stand at 52 percent in mid-1989. Roughly one-sixth is financed by foreign loans, the remainder by government bonds, treasury notes, a national savings scheme, and so forth.

In late 1989 the economy was still operating near full capacity utilization, skilled labor bottlenecks continued to hamper production, and inflation remained several percentage points above the average of competitor countries. Backed by the results of a 1980 referendum, the Swedish Parliament has taken decisions to dismantle the country's existing 12 nuclear reactors by 2010, beginning in the mid-1990s. At the same time, it has banned the construction of new hydroelectric plants along four virgin rivers and set a ceiling on the generation of carbon dioxide. If these decisions are followed through, they are certain to affect Sweden's industrial competitiveness.

2. Exchange Rate Policies

After the collapse of the Bretton Woods system, Sweden, in 1973, joined the European Common Market's monetary "snake." This system came to be dominated by the deutschemark, but although West Germany was (and still is) Sweden's largest trading partner, a price and wage explosion in Sweden in the mid-1970s led to devaluations of the krona against the deutschemark within the "snake." These proved insufficient, however, and Sweden unhooked from the system in 1977, simultaneously devaluing the krona by 10 percent, and established its own currency benchmark. This pegged the krona to a trade-weighted "basket" of 15 foreign currencies (the U.S. dollar is accorded double weight because of its importance for international trade in such commodities as oil, pulp, and paper). This system, too, proved to be imperfect. Pressures built up in the early 1980s and brought two successive Swedish devaluations of 10 and 16 percent, at which time the "basket" index was fixed at 132 (and can fluctuate between 130 and 134), which is still the situation today.

Sweden applied a battery of foreign exchange controls until the international deregulation process, particularly that in the EC, forced it to follow suit in the latter half of the 1980s. As of mid-1989, the only remaining restrictions of this legacy from the war years involve the requirement that Swedish Government bonds acquired by interests outside the country must be deposited in a Swedish bank or with an authorized stockbroker; and the stipulation that Swedish individuals (and some Swedish firms) are still prohibited from making deposits in foreign banks and from paying life insurance premiums to insurance companies outside the country. Various transaction requirements remain in place to maintain statistical coverage and ensure satisfactory tax control.

There are no restrictions on remittances of profits, of proceeds from liquidation of an investment, or of royalty and license fee payments. Similarly, a subsidiary or branch may transfer fees to a parent company outside of Sweden for management services, research expenditures, etc. In general, yields on invested funds, such as dividends and interest receipts, may be freely transferred. A foreign-owned firm may also raise foreign currency loans both from its parent corporation and credit institutions abroad.

3. Structural Policies

The Swedish tax burden is the highest in the OECD, with a record equivalent of 55 percent of GDP being collected in tax revenues. Since 1982, approximately nine-tenths of Sweden's economic growth has been taken by increased taxes. The marginal tax rates levied on personal income have inched up over the years to levels which are now recognized as detrimental to the efficient working of the economy, and efforts are being made to reduce those rates to buttress the work incentive. On the corporate side, effective taxes are comparatively low and depreciation allowances on plant and equipment are generous, though social security contributions for the work force add a further one-third or so to employers' wage bills.

Like the situation in the EC countries, most goods and services for domestic consumption are subject to a value-added tax, in Sweden at an effective rate of 23.46 percent of retail price. Trade in industrial products between Sweden and EC and EFTA countries are not subject to customs duty, nor is a significant proportion of Sweden's imports from developing countries. Import duties are among the lowest in the world, averaging less than 5 percent ad valorem on finished goods and around 3 percent on semi-manufactures. Most raw materials are imported duty free.

Two areas of the economy are still substantively affected by regulation--agriculture, and clothing and textiles. To maintain a high level of self-sufficiency, the country directly and indirectly supports farming through a target price system protected by import levies. An earlier system of calendar licensing for apples and pears was long a bone of contention between the United States and Sweden but was abolished in November 1989. (Sweden is the largest foreign market for U.S. pears.) Following the agricultural agreement of spring 1989 within the GATT, the Swedish Government has given assurances that agricultural export subsidies will be, at the least, reduced and other regulations in the area reviewed for decontrol. As to clothing and textiles, Sweden hopes to have removed all barriers by the time the current Multi-fiber Agreement (MFA) expires in mid-1991. Support will be provided to allow the domestic industry to adjust.

There is very little regulation of exports apart from control of arms exports and a law governing the re-export of certain high technology products. The latter control was introduced in 1987 to stop Sweden being used as a transit point for the transfer of foreign high-technology equipment. The Government has substantially deregulated telecommunications in Sweden, ending the Government monopoly, and has restructured the industry to promote competition and encourage efficiency.

4. Debt Management Policies

Sweden's external debt was incurred chiefly by central government during the non-Socialist era, 1976-82, in the aftermath of the first oil price hike in order to buttress ailing industry. Shipbuilding, iron ore mining, and forestry, once Swedish industrial staples, received support over a 10-year period to retrench and restructure. Current policy is to incur no further debt of this kind, which in mid-year 1989 was the equivalent of around 9 percent of GDP. Management of the debt is posing no problems to the country and has no implications for the United States.

5. Significant Barriers to U.S. Exports and Investment

To help ensure free Swedish access to foreign markets, Sweden has opened its own markets to imports and foreign investments, and campaigns vigorously for free trade in the GATT and elsewhere. Import licenses are not required, except for restricted items such as munitions, dangerous chemicals, etc. Sweden enjoys certain licensing benefits under Section 5 (k) of the U.S. Export Administration Act.

Sweden makes wide use of EC and international standards, labeling, and customs documents, in order to facilitate its own exports.

Service exports to Sweden face some barriers. Swedish financial markets have been largely deregulated in recent years, and foreign banks may compete in many sectors. Nevertheless, foreign banks have not been allowed to open branches in Sweden, and may not have finance company subsidiaries. However, recent banking reciprocity demands by the EC are forcing Sweden to permit the establishment of foreign bank branches and some foreign purchasing into Swedish banks, and these changes are expected to occur in 1990. On the insurance front, neither domestic insurance agencies nor foreign agencies with a license to operate in Sweden are allowed to sell policies underwritten by foreign firms. Although a government commission had recommended abolishing this restraint, the Finance Minister decided in late 1989 to review the subject again.

Foreign investment is welcome in Sweden, except for the few restrictions noted below. Foreign acquisitions are more difficult, particularly if these are to be made in strategic areas of the economy or where their failure could result in severe local unemployment. Foreign ownership is not permitted or is severely restricted in air transportation, the merchant marine, manufacture of war materiel, publishing, mining, and forestry. In addition, a state-sanctioned monopoly protects health care. Both incoming and outgoing direct investment is screened by the Central Bank for statistical purposes.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government-sponsored incentives to business. There are certain limitations on aliens with regard to the formation of a corporation, membership on its board of directors, and its managing directorship, but there are wide exceptions. Foreign individuals and legal entities must obtain permission to acquire shares that will increase voting power in already established companies to more than 10 percent, or to raise holdings above thresholds of 20, 40, or 50 percent. Such acquisitions are usually approved as long as they are viewed as not being detrimental to the public interest. Foreign nationals and companies--as well as Swedish companies controlled by them--need official permission to acquire real estate in Sweden, but again this is usually granted if the property is to be used for normal business or residential purposes.

Regarding foreign acquisitions and takeovers in Sweden, the country has no performance requirements as such; in fact, the laws on foreign acquisition specifically reject such requirements. Two elements of the law, however, can work together to place performance obligations on an investor wishing to acquire an existing Swedish company. First, when considering whether to grant permission for an acquisition, the Government must ensure that the investment does not run contrary to any vital public interest. Second, the Government is directed to take into account any voluntary commitments which both parties to the investment make and which are important to its successful conclusion.

Changes are in the offing to simplify these procedures, however. As in the wording of the U.S. 1988 Omnibus Trade and Competitiveness Act (Section 5021), only acquisitions that constitute a threat to the national security will probably be disallowed, which will also bring Sweden closer to EC policies and adjust to the OECD's regulations in the area. Sweden's Industry Minister commented publicly on these envisaged changes, saying that "The most important thing is that the rest of the world should know that our control of foreign takeovers is exercised according to international practice." Implementation is expected in 1990. Among the stated reasons for the proposed changes is that the current legislation not only gives Sweden a poor platform from which to react against discrimination of Swedish firms abroad but may actually cause such discrimination. Nor is the present legislation in line with Sweden's stated interest in promoting direct incoming investment.

The question of allowing foreign banks to establish branch offices in Sweden (not just subsidiaries) has also been reviewed and changes are expected in 1990, together with changes in foreign ownership rules for Swedish banks and credit institutions.

Government procurement is usually open to foreign bidders. Sweden recently opened to foreign bids its market for some heavy electrical equipment, in order to qualify for a waiver from the Buy America Act for exports of the same type of equipment to the United States. The Swedish Government has no official policy of imposing countertrade requirements.

6. Export Subsidies Policies

The Swedish Government provides basic export promotion support through its financing, jointly with Swedish industry, of the Swedish Trade Council. The Council works through Swedish embassies and trade offices in key markets, conducting a broad range of programs from preparation of promotional and technical literature to special exhibitions and seminars. The Swedish Government and Swedish industry also jointly finance the Swedish Export Credit Corporation (SEK), which grants medium- and long-term credits to finance exports of capital goods and large-scale service projects. Working with the Swedish Agency for Technical and Economic Cooperation (BITS), the SEK also provides to LDCs mixed low-interest credits with long maturity and grace periods.

The Swedish Export Credit Guarantee Board (EKN) provides insurance against losses caused by default of a foreign debtor or buyer of Swedish exports. The guarantees on the average cover 85-95 percent of the exporter's credit risk. Government-subsidized export financing and export credit guarantees combined amounted to Skr 937 million (around $151 million) in FY1987/88.

A government agency, the Swedish National Board for Technical Development (STU), provides financial support for technical research and industrial development in the form of grants to major projects likely to become profitable in the future. Most of these grants go to universities and other research centers; in fact, the STU provides half of the operating expenses of a number of industrial research centers. Where industrial research and development is likely to become profitable, 50 percent of the required financing could be provided by STU as a conditional loan.

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The Swedish National Industrial Board, SIND, supervises Sweden's 24 regional development funds, which are tax-supported agencies providing financing and consultancy services to small and medium industries. The Swedish Government supported Swedish industry with Skr 5.7 billion (about $930 million) in FY 87/88, down $130 million from the previous year. From the mid-1970s to FY 1987/88, the Swedish Government paid a total of $13 billion in temporary industry support (in 1988 prices), or the equivalent of 7 percent of GDP; this money was used to restructure and to phase out unprofitable industries (such as the shipyards).

A 1987 countervailing duty determination by the U.S. Department of Commerce found that Sweden also employs a variety of regional development subsidies to promote employment in underdeveloped regions. Assistance is provided in the form of grants or loans to aid in the location of industry, freight relief, regional investment projects, health care facilities, building and construction, and various employment schemes.

There are no tax or duty exemptions on imported inputs, no resource discounts to producers, and no multiple exchange rate system in Sweden.

7. Protection of U.S. Intellectual Property

Sweden is a member of the World Intellectual Property Organization and is a party to the Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty.

Sweden strongly protects intellectual property rights. The laws are adequate and clear, enforcement is good, and the courts are efficient and honest. Sweden supports efforts to strengthen intellectual property rights, and often shares U.S. positions in international meetings on the subject.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. A large majority of the working population, including career military personnel and civilian government officials, belongs to trade unions. Unions conduct their activities with complete independence from the Government and may freely affiliate with international organizations.

b. The Right to Organize and Bargain Collectively

Workers are free to organize and bargain collectively. This right is applied and practiced uniformly throughout Sweden.

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c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist in Sweden.

d. Minimum Age of Employment of Children

In Sweden, compulsory education ends at age 16, and full-time employment is normally permitted at this age under supervision of local municipal or community authorities. Young people under 18 years may work only during daytime and under a foreman's supervision. During the summer and in vacation periods, children as young as 13 years of age may be hired for part-time work or light "summer jobs" for periods of five days or less, although it is rare for young people under 15 to find a job except with family members.

e. Acceptable Conditions of Work

Although there is no minimum wage law, wages are set by collective bargaining contracts. Wage rates typically are observed even at non-union establishments. A designated and trained trade union steward monitors observance of the regulations governing working conditions. Occupational health and safety rules are closely observed. Safety ombudsmen and safety committees are required by law in large enterprises. On a continuing basis, Swedish authorities are trying to find ways to improve the situation for those employees in jobs that are hazardous and tend to cause long-term health problems.

f. Rights in Sectors with U.S. Investment

Sweden has long been in the forefront of labor and social legislation, and has a well-developed system to protect labor from abuses. The labor laws apply to all firms, Swedish or foreign, and apply in some form to all sectors of the economy. Among goods producing industries, U.S. investment is mainly in the food, chemicals and related products, primary and fabricated metals, machinery, electric and electronic equipment, and wholesale trade.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		627
Food & Kindred Products	42	
Chemicals & Allied Products	34	
Metals, Primary & Fabricated	13	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	49	
Wholesale Trade		222
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

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Key Economic Indicators

(Millions of Swiss francs (SFr) unless otherwise noted)

	1987	1988	1989	
Income, Production, Employment				
GDP (current prices)	254,865	268,755	283,310	
GNP per capita (SF)	40,201	42,201	43,886	
GDP (pct change)	2.3	3.0	3.2	
Industrial prod (pct growth)	1.0	6.0	4.0	
Labor Force (000s)				
Industy and services	3,160	3,200	3,220	
Foreign	820	860	900	
Unemployment Rate (avg)(pct)	0.8	0.7	0.6	
Money and Prices				
Money supply (Central Bank)	2.9	-3.0	2.0	
Bank bonds	4.39	4.18	6.39	1/
Consumer price index	1.4	1.9	3.2	
Wholesale price index	-2.0	2.3	4.6	
Exchange Rate (SF/$)(avg)	1.49	1.46	1.60	2/
Balance of Payments and Trade				
Total merch exports FOB	67,476	74,063	54,070	3/
Exports to U.S.	5,918	6,294	4,825	3/
Total merch imports CIF	75,170	82,398	62,075	3/
Imports from U.S.	3,994	4,561	4,074	3/
Current account balance	11,263	12,296	10,000	
Forex reserves (yr-end)	37,440	35,947	32,692	3/

1/ September
2/ January-June
3/ August

1. General Economic Framework

Economic policy in Switzerland is characterized by prudent fiscal, monetary, and exchange rate policies. However, the success and impact of these policies on this small, open economy is influenced by external developments. The degree of openness is illustrated by the fact that in 1988 exports of goods and services amounted to 48 percent of gross domestic product (GDP), while the comparable figure for imports was 52 percent (in constant prices). In 1989, the economy has continued to enjoy full employment, and a surplus in the current account of the balance-of-payments. However, a rise in the inflation rate to over three percent, high by traditional Swiss standards, has caused some experts to worry about the longer term economic prospect.

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Fiscal Policy: Fiscal policy is not actively employed as a countercyclical device. This seems to reflect both a philosophical conviction of Swiss policy makers and the reality of the Swiss federal system which precludes it effectively. In this system, the weight of the cantons and communities in the fiscal equation is both heavy and largely independent of federal policy. In 1988, the budgeted federal share of both total public expenditures and revenues amounted to about 35 percent. The Government's medium-term objective is expenditures of 10 percent of GNP. In 1988, the federal government ran a budget surplus of almost SF1.25 billion, or 46 percent of GDP, although the surplus had been expected to be only half that amount. Another federal surplus is likely to have occurred in 1989. Similarly, the cantons, expected to run deficits in 1987, ran surpluses of SF500 million.

Monetary Policy: The Swiss National Bank (SNB) has established as its primary objective the control of inflation. The SNB targets the monetary base (currency and banks' sight deposits with the Central Bank). The primary monetary control mechanism is foreign currency swap transactions with the banks. Discount rate changes are fairly infrequent and generally occur simultaneously with those of other major European Central Banks. Because of a change in bank liquidity requirements and improvements in the interbank clearing system, banks' demand for liquidity declined sharply in 1988, resulting in a contraction of the monetary base for that year which continued in 1989.

2. Exchange Rate Policies

The Central Bank's past concerns about an internationalization of the franc have diminished and capital controls have been progressively dismantled. At present, reporting requirements are essentially for the purpose of statistical collection. Still in place is the requirement that Swiss franc-denominated foreign borrowings be conducted through syndicates of banks resident in Switzerland. However, some analysts believe that various factors are at work which mean that it will be only a matter of time before SFr bonds are underwritten outside of Switzerland.

Until recently a traditional Central Bank concern had been that the Swiss franc not become overvalued, especially vis-a-vis the German mark. However, the franc sustained a sizable depreciation in 1989, which led some to criticize the National Bank for conducting an insufficiently tight monetary policy. The SNB, however, maintains that its policy has been consistent with the medium-term objective of eliminating inflation.

3. Structural Policies

Pricing Policies for Manufactured Goods: The Swiss use the market mechanism to establish prices for most manufactured product categories. The retail trade is dominated by a few large organizations with one, Migros, accounting for close to 40 percent of supermarket sales. Cartels are permitted to operate under Swiss law. However, there is a government Cartel Commission that determines whether a cartel is of public interest. Government agencies use competitive bids for procurement. The Defense and PTT departments have some restrictions on foreign purchases (small arms, clothing and boots, telecommunications equipment). The PTT requires foreign vendors to have local representatives and service facilities. The use of government subsidies is rare. (Motion picture production is one of the few areas that receive direct subsidies). Except for telecommunications, the impact of Swiss Government pricing policies on U.S. exports is insignificant.

Pricing Policies for Agricultural Products: Switzerland has two pricing systems for agricultural products (with some complicated overlap). The first, accounting for an estimated 80-90 percent of total value of agricultural product consumption-unprocessed basis, is for domestic products and for imports that compete with domestic products, with prices largely determined by government action. Farmers receive guaranteed prices for bread grains, sugar beets, livestock and other basic products. Actual overseeing of prices is often delegated to private sector or mixed cartel-like organizations (e.g., "fruit bourses" for fruits and vegetables). Prices of imports are raised to domestic levels by quotas, variable import charges, and by requiring importers to take over domestic products at high prices as a condition of importing.

The second pricing system, accounting for an estimated 10-20 percent of total value of agricultural product consumption-unprocessed bases, is for imported products that do not compete significantly with domestic products, with prices determined by the world market. This sector includes labeled processed food products (except those containing grains, sugar or other domestically-supported products), some imported inputs to domestic industry (e.g., cotton, tobacco, dried fruits and nuts), and non-competitive fruits and vegetables. Although government influence on pricing is usually diluted as value is added in processing, it often remains important even at the retail level. Government offices administer retail price controls for many items (including milk, bread, potatoes, fruits and vegetables), and monitor prices of others.

Tax Policies: The United States has a bilateral tax treaty with Switzerland. A multiplicity of tax systems and rates results from the division of fiscal and financial sovereignty in accordance with the federal structure of the nation. While the federal government levies a direct personal income tax, its most important source of revenue is from indirect taxation. The most important revenue source of the cantons and communities is taxes on earnings and capital, the rates on which can vary fairly substantially from one canton to another. The direct and indirect taxes are collected independently of one another which tends to result in a degree of double taxation. The Constitutional basis for most present federal tax authority will expire in 1994. With respect to taxation, Swiss citizens have the right of initiative and referendum at all levels of government.

Along with a personal income tax and tax on income of corporations and cooperatives, the federal government levies a 35 percent withholding on dividend and interest income. An indirect (turnover) tax on wholesale and retail trade is also in effect. The federal government's most controversial tax is a stamp duty on securities issuance and sales. This tax has been criticized bitterly by Swiss banks which say that it has precluded the development of a money market in Switzerland and driven business abroad. Parliament is currently considering proposals to modify or eliminate the stamp tax. In addition, consideration is being given to shifting direct taxes, which at the federal level and in most cantons are collected on a biannual bases, to an annual basis.

3. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland. Switzerland participates in the Paris Club debt reschedulings and is an active member of the OECD. It is not a member of the IMF, nor of the World Bank. However, Swiss finance authorities are keenly interested in the LDC debt problem and frequently express their concerns about it and, through the Bank for International Settlements (BIS), participate in bridge financing exercises. Some members of the government Department of Finance follow closely the activities of the international financial institutions.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: Swiss licensing procedures do not hinder imports from the United States. The Government issues a general import license similar to that employed by the U.S. Government. In the case of manufactured products this license is granted freely and is basically used for statistical purposes. Swiss importers of sophisticated U.S. technology may, if required by the U.S. Government, obtain a "Swiss Blue" import certificate which prevents re-export to East Bloc or other U.S. Government-controlled destinations without Swiss and U.S. Government permission. Switzerland enjoys certain licensing benefits under Section 5(k) of the U.S. Export Administration Act.

A new motion picture law is currently in preparation and is expected to be presented to Parliament in 1990. The present law establishes for each established distributor a quota, which is liberally applied. However, this law also contains a provision enabling the Government to deny quotas to U.S. suppliers seeking to change their distribution network in Switzerland. This provision was applied against a U.S. film producer in 1987. Vigorous U.S. Government protests and film company efforts resolved this problem satisfactorily. The revised law is expected to eliminate discriminatory provisions and should be in conformity with ANTA.

In 1989 Switzerland became a signatory of the Council of Europe's Convention on Transfrontier Television and has put its provisions into effect, although it has not yet formally ratified it. Among the provisions is an article requiring signatories "wherever practicable" to have at least 50 percent of their television programming of European origin. The effect of this convention on purchases by Swiss television of U.S.-origin programming remains to be seen, but it has caused considerable concern.

Swiss standard and testing requirements can pose difficulties to potential U.S. suppliers. All electrical products must be tested and approved by the Swiss Electro-technical Association, a semi-official body. Similarly, firms and individuals who install security devices that are approved by another private industry association receive insurance discounts. Drugs must receive approval from the Intercantonal Drug Commission. Labeling requirements in multiple languages (German, French and Italian) also pose difficulties. These handicaps do not represent formidable barriers and can be taken care of by local distributors.

Insurance: Insurance is subject to an ordinance which requires the placement of all risks physically situated in Switzerland with companies located in Switzerland. Therefore, it is necessary for foreign insurers wishing to write business in Switzerland to establish a subsidiary or branch there. Government regulations do not call for any special restrictions on foreign insurers establishing in Switzerland. However, Swiss insurance companies are allowed to impose restrictions on the transfer of their registered shares, which effectively blocks unwelcome takeovers. In addition, Swiss insurers have formed cartels, the presence of which has apparently made it difficult for foreigners to compete. However, in early 1989 the Government ordered an end to the property insurance cartel. Penetration of the Swiss market by foreign insurers has been minimal.

Limitations on Foreign Equity Participation: Swiss corporate shares are issued as registered shares (in the name of the holder) or bearer shares. Under current company law, Swiss corporations may in their articles of incorporation impose restrictions on the transfer of registered shares. This can, and often does, include restrictions on foreign ownership. The Swiss Parliament is debating a revision of company law which would continue to allow this practice. The executive branch has expressed its concern about foreign ownership restrictions, citing international capital code commitments.

Banking and Securities: Foreign banks established in Switzerland are subject essentially to the same regulatory requirements as domestic banks. Restraints on competitive opportunities stem primarily from certain institutional features of the Swiss financial markets. Reciprocity is taken into account insofar as the issuance of banking licenses is concerned. Swiss stock exchanges have had foreign members for many years. However, personal licenses to represent professional securities traders and to trade on the floor are available only to Swiss nationals. Numerous U.S. financial institutions are established in Switzerland as banks, finance companies and brokerages.

Investment Barriers: The Swiss generally welcome foreign investment and accord it national treatment. The federal government has adopted a neutral posture and plays no role in this area. However, certain cantons (states), such as canton Fribourg, aggressively seek to promote themselves as a site for foreign investors. Work permits for foreign nationals remain the biggest barrier to investment, especially in the cantons of Zurich and Geneva. As noted earlier, Swiss corporations are allowed to prevent unwelcome foreign takeovers.

Government Procurement Practices: With the exception of a few defense-related items and telecommunications (a PTT monopoly) government procurement relies on competitive bids. Countertrade is not used.

Swiss power companies are mixed public-private entities. Bids for electrical equipment, such as turbines, are public, but often closed, i.e., only certain firms of known competence and competitiveness are invited to bid. U.S. firms have claimed that they are shut out of this market. The Swiss have replied that U.S. firms have been invited to bid, but did not.

Customs Procedures: Switzerland may be the only country which applies customs duties on weight rather than value. For the most part, customs duties are low and not burdensome. There are a number of agreements between Switzerland, an EFTA member, and the EC under which manufactured products enter duty free. The U.S. does not benefit from this regime.

Land Ownership: Purchase of property by foreign nationals (and non-resident Swiss) is subject to the provisions of the federal law of December 16, 1983 on the acquisition of real estate by persons residing abroad. All property sales to non-residents (foreign or Swiss) are subject to government approval and to a quota system fixed every two years. However, the quota system principally applies to holiday resort apartments and houses in the country's tourist areas, where land has become extremely scarce. The cantons can enact stricter requirements and canton Valais, a prime tourist area, has voted to prohibit foreign purchases. Property sales to foreigners for commercial or industrial purposes are also subject to a permit, but provisions are far less restrictive and no ceilings are imposed. Foreigners who have settled in Switzerland on the basis of a residence permit are not subject to any restrictions regarding purchase of real estate after ten years' residence.

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A law designed to discourage real estate speculation and stop escalating property prices was passed by Parliament in October 1989 and became effective immediately. It provides for a minimum holding period of five years on the resale of residential real estate by anyone, Swiss or non-Swiss. In addition, the purchaser may not borrow more than 80 percent of the amount required for the purchase. Also, pension funds and insurance firms may not invest more than 30 percent of their total assets in real estate in Switzerland. Land is Switzerland's scarcest commodity and demand far outstrips supply. Legal impediments also prevent the conversion of agricultural and forest land to other purposes. Only 30 percent of Swiss live in homes they own; the rest rent. By eliminating speculators from the market, the government hopes to contain housing prices and rents.

Agriculture: Switzerland has a highly subsidized agricultural economy that is rigidly protected by a plethora of import restrictions--licensing, quotas, supplementary import charges, variable levies, conditional import rules, import calendars, etc. According to press reports, the OECD has calculated that 75 cents of every dollar of income of Swiss farmers is attributable to import restrictions and subsidies, or other government measures. This results from the Swiss policy of maintaining a high level of self-sufficiency and is facilitated by the Swiss Protocol of Accession to the GATT, which exempts certain agricultural laws and regulations.

6. Export Subsidies Policies

The Swiss Government does not finance or subsidize Swiss exports. Financing of export credits is the sole responsibility of the private sector. Swiss Government support for export transactions is limited to coverage of noncommercial risks under an official export risk guarantee program, jointly funded from government and private sources. Approximately 15 percent of total Swiss exports receive such coverage. Risks covered include transfer difficulties, payment moratoriums, insolvency and inability to pay of private corporations due to political pressures, political upheavals, including war, revolution, civil strife, and nationalization.

An exception to this rule are agricultural products. The federal government subsidizes the export of dairy products, primarily cheese, by making up the losses of the quasi-governmental export organizations. Exports of processed food products (chocolate products, grain-based bakery products, etc.) are subsidized by compensating exporters for the difference between world prices and high Swiss prices for inputs (i.e., for the grain, milk, butter, sugar, etc., content of the exported product). The export of temporary surpluses of domestic producers are also subsidized by the Government (e.g., beef, concentrated apple juice). It is expected that current practices in effect in Switzerland may be altered as a result of the Uruguay Round trade negotiations.

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7. Protection of U.S. Intellectual Property

Switzerland is a signatory to the Paris Convention for the Protection of Industrial Property and to the Berne Copyright and the Universal Copyright Conventions.

Patents: The Paris Convention provides that patent application filed in member countries within one year from the date of filing in the inventor's country will receive priority as of the original filing date. If filed in Switzerland, a patent application must be made in one of the country's three official languages (German, French, Italian), and must be accompanied by detailed specification and, if necessary, by technical drawings. Patents are granted for new inventions designed for industrial use, the emphasis being on the originality of the device and no fees are levied during the first three years after a patent has been granted. Thereafter, renewal fees are payable annually on an ascending scale, starting at SF100 and rising to SF900.

Patents are not renewable beyond the original 20-year term. According to Articles 1(a) and 2 of the Swiss Patent Law of 1954, as amended, the following items cannot be covered by patent protection: species of plants and animals and biological processes for their breeding; surgical, therapy and diagnostic processes for application on humans and animals; and inventions liable to disturb law and order and offend "good morals." Drugs, foodstuffs, and alloys are not excluded from patent protection. Under certain conditions, listed in Article 37 of the Patent Law, compulsory licensing of patent rights, held by Swiss or foreign nationals or companies, may be possible, but only after proper court proceedings, against payment of adequate compensation, and if the original patent holder did not use his patent rights within a period of four years, and he was moreover unable to provide the courts with convincing reasons why he failed to make use of his patent rights.

Trademarks: Foreign individuals or companies engaged in trade or manufacture in Switzerland may apply for the Registration of Trademarks, regardless of whether their trademarks are entitled to protection in their own country. Trademarks are protected for periods of 20 years, and may be renewed for like periods. Counterfeiting has become a problem, especially counterfeiting of Swiss trademarks which enjoy an international market lead and reputation. This applies in particular to watches, chocolate, textiles and apparel. On the other hand, counterfeiting of foreign products in Switzerland does not appear to be very widespread. A recent case concerned the counterfeiting of "Lacoste" shirts in which a number of Swiss importers and distributors were involved. Swiss courts soon put a stop to this activity.

Copyrights: Copyright protection is considered adequate and enforcement of copyright law is efficient and prompt. Piracy of video films and musical tapes is reported occasionally, however. Two agencies collect royalties for cable and other types of re-transmission of foreign sound or film programs and remit these to the rightful owners abroad. One is Suisa in Zurich for audio, the other Swiss-Image for visual material. The aforementioned organizations will report any infringement of copyrights that comes to their attention to the appropriate authorities which will then initiate the necessary proceedings against offenders. Worldnet, the USIA broadcasting arm, has had a problem with Suisa. Suisa contends that Swiss law requires the collection of copyright payments even when the broadcasting entity owns the copyright and the payments would be returned to the broadcaster. If USIA cannot accept payments, Suisa contends it still must pay the copyright fees, although Suisa would then keep the proceeds.

New Technologies: Provision for protecting new technologies is made under the Unfair Trading Act, revised in May 1988. Without listing specific products or processes, Article 5 of the Act stipulates that efforts and achievements of others in the field of new and marketable technologies shall not be exploited commercially through technical procedures by third parties. Furthermore, the Swiss Government is interested in collaboration with other countries within the framework of WIPO to work out an international convention for the protection of new technologies. This would not cover, for example, integrated circuits or semiconductor chips, but entire circuit layouts and complete technical plans. With respect to computer software protection, the Swiss Government is revising the Swiss penal code, to include legislation dealing specifically with computer criminality and abuse of credit cards.

Lack of reliable data does not permit a definitive analysis with respect to the impact of Swiss intellectual property practices on U.S. trade. No serious problems have been noted, however, and it is believed that Swiss intellectual property rights practices have not materially affected U.S. trade with Switzerland. In the context of the Uruguay Round GATT negotiations, Switzerland is working to strengthen intellectual property rights worldwide.

8. Worker Rights

a. The Right of Association

Workers have freedom to associate freely, to join unions of their choice, and to select representatives. Unions can publicize their views and join international organizations. There are no limits on the right to strike, but a unique labor peace agreement between unions and employers has provided a nearly strike-free environment for over 50 years.

b. The Right to Organize and Bargain Collectively

Swiss law provides workers the right to organize and bargain collectively and protects workers from acts of antiunion discrimination. The industrial sector is generally unionized; union membership is less general in the services sector. The Government encourages voluntary negotiations between employer and worker organizations, although both employers and workers generally seek successfully to exclude the Government from involving itself in their affairs. Labor law and practice are uniform throughout the country.

c. Forced or Compulsory Labor

There is no forced or compulsory labor in Switzerland.

d. Minimum Age of Employment of Children

The minimum age for employment is 15. Children over 13 may be employed in light duties for not more than 9 hours a week during the school year and 15 hours otherwise. Employment of youths 15-20 is strictly regulated--they may not work at night, on Sundays, or under hazardous or dangerous conditions. These laws are observed in practice.

e. Acceptable Conditions of Work

There is no national minimum wage. Salaries and wages are negotiated between employers and employees. In industry, wages are in most cases determined by agreements between major labor unions and employers' associations. The Federal Labor Act and the Swiss Code of Obligations regulate several important conditions of work. There is a maximum 45 hour workweek for blue- and white-collar workers in industry, offices and retail trades, and a 50-hour workweek for all others. The average workweek is about 42.6 hours.

Swiss federal law also sets minimum requirements in several areas, such as annual leave, length of notice for termination of employment by either worker or employer, sick leave, and other fringe benefits. Swiss Environmental Protection authorities, as well as labor authorities, have promulgated and updated occupational health and safety regulations, as well as special regulations for protection in workplaces involving hazardous activities or substances. There were no allegations of worker rights abuses in Switzerland in 1988 from any domestic or foreign source.

f. Rights in Sectors with U.S. Investment

U.S. capital is in general invested in sectors which entail employment of substantial numbers of production workers. Swiss legislation concerning worker rights does not distinguish among workers by sector, by nationality of employing firm, or in any other manner which would result in treatment of workers employed by U.S. firms that differs from that afforded workers employed by Swiss or other foreign firms.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		1,734
Food & Kindred Products	(D)	
Chemicals & Allied Products	241	
Metals, Primary & Fabricated	37	
Machinery, except Electrical	68	
Electric & Electronic Equipment	172	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		4,944
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

TURKEY

Key Economic Indicators

(Millions of Turkish Lira (TL) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, Employment			
Real GDP (1968 factor cost)	267,692.4	279,998.9	280,311.8
Real GDP growth rate (pct)	5.5	4.6	0.27
Real per capita GDP (1968 pcs)	5,070	5,175	5,047
Per capita GDP (current factor cost)	1,001,582	1,691,690	2,733,541
Total GDP (bils TL)	52,928.0	91,647.2	151,823.6
by sector			
Agriculture	9,532.3	15,822.9	24,845.4
Industry	16,847.5	29,819.8	48,793.0
Manufacturing	13,597.0	23,960.8	39,141.9
Other	26,548.8	46,004.5	78,185.2
Labor force (000s)	18,804	18,350	18,680
Unemployment rate (yr avg)	15.2	9.8 1/	10.4 1/
Money and Prices			
Money Supply (M1) (bils TL)	8,541	11,956	16,310
Commercial interest rates (pct)	2/		
Sight deposit	10	35	10 3/
Time deposit - 1-month	28	55	39
3-month	35	67	49
6-month	38	72	52
1-year	1/	85	59
Lending rate	72	101	88
Savings rate (dom svgs/GNP)	24.8	24.2	26.0
Investment (fixed) rate	25.6	24.9	23.7
Consumer price index (pct chg)	55.1	75.2	68.8 4/
Wholesale price index (pct chg)	48.9	69.7	68.0 4/
Exchange rate (TL/$)			
Official yearly avg	855.68	1,416.49	2,120.78
Year-end rate	1,020.90	1,814.80	2,311.37 5/
Unofficial yearly avg	n/a	n/a	n/a
Year-end rate	n/a	n/a	2,310.00
Balance of Payments and Trade (mils $)			
Total exports FOB	10,322	11,846	9,054 6/
Exports to U.S.	713.2	760.6	612.8 6/
Total imports CIF	14,279	14,372	12,633 6/
Imports from U.S.	1,365	1,519.5	1,546 6/
Current account balance	-982	1,503	646
Overall balance	993	888	1,579
Aid from U.S.			
Economic	100	32	60
Military	493.5	490	500
Aid from other countries 7/	205.3	n/a	n/a
External public debt	32,494	32,085	n/a
Debt service (paid)	5,508	6,850	5,852
Gold and forex reserves	5,212	6,428	7,949 8/

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1/ the State Planning Organization has adopted a new methodology for calculating unemployment for the 1988 and 1989 figures. Thus, they cannot be compared precisely to the 1987 figure.
2/ average of large banks, free since October 1988.
3/ Rates were freed as of July 1, 1987 and remained as such until February 1988. The average rate for the 4th quarter of 1987 was 53 percent. It was made free again in October 1988, but an 85 percent ceiling was imposed by the Central Bank in November 1988.
4/ change in index from end of 1988 to end of 1989
5/ exchange rate as of September 30, 1989
6/ year-to-date as of end of September 1989
7/ capital assistance
8/ as of end of July

Sources: State Institute of Statistics, Central Bank of Turkey, State Planning Organization, International Monetary Fund, U.N. Development Program.

1. General Policy Framework

Turkey's economy has experienced remarkable changes in the years since the historic reforms of early 1980. Today the Turkish Government continues to build on the framework of a free-market economy with an export-led growth strategy and liberal foreign investment statutes. The strong pace of growth in the mid-1980s put Turkey in the ranks of the fastest growing economies in the Organization of Economic Cooperation and Development (OECD). In 1987 there were strong domestic pressures on the Government: public spending increased and there was worsening of the budget deficit, leading to a high inflation.

In 1988 and 1989 the Government has taken measures to reduce the high budget deficit. The pace of growth has slackened, and the inflation rate (consumer price index), which climbed to nearly 90 percent in the last months of 1988, hovered between 70 and 75 percent in the latter part of 1989, and moderated slightly to end the year at just under 69 percent. In the past two years import levels have remained steady, and export growth has been slower than targeted. Turkey has enjoyed surpluses on its current account balance, in part because of substantial receipts from tourism and lower-than-planned import levels. Agricultural production suffered a serious setback in early 1989 because of a major drought. The effects have been felt throughout the economy.

Fiscal Policy: The consolidated central government budget deficit in 1988 was equal to 3.4 percent of gross national product (GNP). This was an improvement over the 1987 ratio of 4.5 percent, and this positive trend is expected to continue. The Turkish Government finances its budget deficits through domestic borrowing, printing money, and issuing government bonds. One major component of long-term government spending is the Government's emphasis on public investment in major infrastructure projects, such as the Southeast Anatolia project to harness the waters of the Tigris and Euphrates for agricultural development. The chronic deficits of the many state economic enterprises (SEES) are hefty contributors to Turkey's deficit problems. The Government has undertaken an ambitious program to privatize some of the SEES, but there have been few sales so far.

To increase revenues, the Government since early 1988 has required a transfer of 10 percent of the revenues of the extra-budgetary funds to the central government budget. The Government is also trying to improve its tax collection methods and crack down on widespread tax evasion.

Monetary Policy: The Central Bank sets targets for broad money supply (M2), which it seeks to realize through reserve and liquidity requirements and interest rate adjustment policy. Despite the tight money policies of the Central Bank, monetary targets have been exceeded over the past two years. In 1989, interest rates on savings fell below the rate of inflation, but there have not been significant withdrawals from the banking system as occurred in 1988 when deposit interest rates were negative.

2. Exchange Rate Policies

Turkey follows a flexible exchange rate policy, with the Central Bank adjusting the exchange rates daily. In August 1988 the Government initiated a more market-oriented foreign exchange arrangement whereby authorized private firms and banks may freely negotiate prices for purchases over $50,000. Smaller foreign exchange transactions take place within margins set by the Central Bank on a daily basis. So far the new system has virtually (achieved the goal of) eliminated the discrepancy between the official and unofficial exchange rates. In April 1989 the Central Bank began selling gold to commercial banks for foreign exchange and for interbank gold trading against foreign exchange. Banks may sell gold to resident nationals for domestic currency.

Importers must apply to commercial banks for foreign exchange allocations and must place non-interest earning guarantee deposits with banks (at the rate of 5 percent of the import value). The deposit is returned after the goods have cleared customs and the foreign payment has been made.

3. Structural Policies

Turkey's structural policies affecting demand for U.S. exports include (a) the pricing policies of the State Economic Enterprises--which in 1988 employed over 600,000 workers and accounted for about 45 percent of total public sector investment, (b) the restrictions on public sector investment, and (c) efforts to reform the tax system. An important part of Turkey's reform program has been the goal of making the deficit-ridden SEES more efficient and competitive, to have the SEES use market principles for pricing decisions, and, eventually, to privatize many of them. Prices for SEE products increased significantly in late 1987. Mid-1989 saw more increases in SEE prices, as well as agricultural support prices following the severe drought.

Measures taken by the Government in 1988 have significantly reduced public sector investment, which showed a real decline of about 7 percent in 1989. In October 1988 the Government began requiring all public agencies, municipalities, and extra-budgetary fund administrators to obtain ministerial permission for virtually all expenditures. The Ministry of Defense is not excluded.

Tax Revenue: The Government launched a major tax reform effort in 1981 which cut personal income tax rates to a current range of between 25 and 50 percent. A value-added tax introduced in 1985 helped raise revenue levels in 1985 and 1986. But widespread tax evasion remains a serious problem. In late 1988 and early 1989, the Government initiated measures to improve the tax administration, including larger penalties for non-payment and greater use of computerization.

4. Debt Management Policies

Turkey underwent a severe balance-of-payments crisis in the late 1970s, before the worldwide debt crisis of 1982. By the mid 1980s, Turkey's free-market oriented, export-led strategy, adopted with substantial financial support from international lenders, had turned around the debt situation. In 1987 Turkey's external debt situation again deteriorated markedly, but improved in 1988. Total outstanding external debt in 1988 actually declined to $37.6 billion (exclusive of military debt), due largely to exchange rate fluctuations. Debt service obligations were high, at $7.2 billion, which absorbed 58 percent of export revenues in 1988. High debt service obligations are likely to persist, given Turkey's continuing need for external financing in years to come. In 1988, short-term debt remained a significant portion of the total (about 20 percent.)

The Government, including state economic enterprises and local governments, remained the major borrower, with about 75 percent of medium- and long-term debt. The Central Bank accounted for an additional 20 percent. Bilateral lenders, principally OECD member countries, are Turkey's main creditors, followed by multitlateral lending institutions and commercial banks. Multilateral agencies hold about one-fifth of Turkey's external debt obligations. The World Bank has substantially increased its portfolio in Turkey to about $4.7 billion by the end of 1989. At the same time, International Monetary Fund (IMF) obligations declined to about $350 million. Since the last drawdown of its IMF program in 1984, Turkey has obtained one structural adjustment loan and four sector loans from the World Bank.

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5. Significant Barriers to U.S. Exports and Investment

Import Licenses: Turkey has made significant progress toward dismantling its complicated import licensing system. Currently the Government requires advance permission for the import of only 17 products, including some raw materials, spare parts, and intermediate goods and tools for industry. Import certificates for products which require after-sales service are no longer required, but importers of products such as photocopiers and computers are required to supply the needed after-sales service. There are no current reports of delays in issuing the certificates, but U.S. companies in the past occasionally complained of delays.

Import Surcharges: Turkey collects a variety of import surcharges and fees to protect domestic industries, deter luxury goods imports and address balance-of-payments problems. The number of items subject to surcharges has been reduced this past year to 18,000 from 7,880 . Imported goods are subject to a municipal tax, a stamp tax, quay duty, customs duty, and customs clearing expenses. A surcharge for the Support and Price Stabilization Fund is imposed on all imports and currently stands at 10 percent of value. In 1989 selected customs duties and surcharges for the Mass Housing Fund were lowered. At the end of 1988, before these reductions, it was estimated that the average customs protection rate was 100 percent. As of late October 1989, the nominal protection rate was estimated at 0 to 10 percent for raw materials, 30 percent for semi-finished goods, and 50 percent for finished products.

Government Procurement Practices/Countertrade: U.S. firms sometimes become frustrated at the lengthy, often complicated bidding process for Turkish government tenders. While the Government normally follows competitive bidding procedures, it occasionally requires ministries and public enterprises to include an offset provision in tender specifications when the estimated tender value is more than $1 million. Major military contracts are subject to offset requirements. U.S. firms have not complained about these offset requirements.

Investment: The Turkish law regulating foreign investment is one of the most liberal in the world. All foreign investment projects (except in the petroleum sector) are evaluated by the Foreign Investment Department (FID) at the State Planning Organization, which can independently approve foreign capital investments up to a fixed investment value of $50 million. Investments in excess of $50 million require the permission of the Council of Ministers. The United States and Turkey signed the U.S.-Turkish Bilateral Investment Treaty in December 1988, and it is expected to come into force shortly. The Treaty guarantees "national treatment" for investors of both countries, assures the right to transfer freely dividends and other payments related to investments, and provides for an agreed disputes settlement procedure.

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6. Export Subsidies Policies

Turkey employs a number of incentives to promote exports. Over the past several years there have been substantial changes in the export incentive system. The export tax rebate system was eliminated on January 1, 1989, in conjunction with Turkey's 1985 accession to the GATT Subsidies Code and bilateral commitments to the United States. The rebates have been replaced by subsidized credit programs for exporters--from the Turkish Eximbank, programs for both pre-shipment and post-shipment credits, and for large export firms, a Central Bank system of credits. Other subsidies include: corporate income tax deductions for exporters of manufactured goods worth over $250,000; duty-free imports of inputs for exports; and refunds of value-added tax (VAT) on exports.

Since 1986 the Turkish Government has had a program of premium payments from the Support and Price Stabilization Fund for the export of certain products. The product list has been steadily expanding and currently contains over 100 items.

7. Protection of U.S. Intellectual Property

Turkey is a party to the Berne Copyright and Paris Industrial Property Protection Conventions.

Nevertheless, its intellectual property laws are inadequate. Because of these inadequacies, in May 1989 the U.S. Trade Representative placed Turkey on the Special 301 "Watch List" of 17 countries with which the U.S. has specific concerns regarding intellectual property rights. Turkey needs to enact new legislation and to strengthen enforcement of existing patent and copyright laws.

The Turkish Government has in the past given the United States assurances that Turkey is ready to move forward with a modern patent law, and that the eventual legislation will substantially address U.S. concerns about the lack of protection of pharmaceutical and chemical products and methods of their production. Despite these assurances, the Government has not yet taken any firm steps to resolve existing problems. A proposed new patent law, as of this writing, still has not gone to Parliament.

Patents (Product and Process): Turkey's current patent law does not provide protection for human or veterinary drugs or the processes for making them. Nor are biological inventions, including plant varieties, patentable. Turkey's seed registration, control and certification law does not ban unauthorized propagation of foreign firms' proprietary seed. Cases of seed pirating in Turkey have been documented. The patent term in Turkey is only 15 years from the date of filing application (as compared with the U.S. term of 17 years from the granting of the patent.) Draft Turkish patent legislation is stalled in internal government review. It is unclear whether the final draft presented to Parliament will include protection for pharmaceuticals or may only apply to pharmaceuticals after a phase-in period.

Copyrights: U.S. accession to the Berne Convention established direct bilateral copyright relations with Turkey. Although Turkey has a copyright law, there is widespread unauthorized copying and sale of U.S. and other foreign books, motion pictures, sound recordings, and computer programs. The March 1987 Registration Law for films, video cassettes, and sound recordings (separate from the Copyright Law) was expected to help reduce piracy, but penalties and enforcement have proven to be inadequate to meet U.S. industry needs. In addition, draft legislation has been presented to the Parliament that would limit the amount of profits U.S. industry can remit, stop film dubbing, and establish quotas on the number of foreign films theaters may show. Turkish authorities assert that the Copyright Law gives computer programs protection, but this has not been tested in court.

The lack of adequate protection of intellectual property in Turkey is a serious problem, and we continue to engage Turkish officials in discussions on the need to remedy the situation. It is difficult to assess the amount of U.S. export loss attributable to these trade-distorting practices. U.S. film exporters alone estimates losses in the range of $45 million per year. Unless the Turkish Government moves to give higher priority to improving patent and copyright protection, we foresee greater difficulties for U.S. industry in the Turkish market.

8. Worker Rights *

a. The Right of Association

Most workers have the right to associate freely and form representative unions. State-employed Turkish teachers, military officers, draftees, and non-commissioned officers, policemen, and civil servants are not permitted to organize unions or form professional associations.

Workers have the right to strike. Turkish law and the labor court system, however, require collective bargaining before a strike. The law specifies a series of steps which a union must take before it may legally strike, and a similar series of steps before an employer may engage in a lockout. Non-binding mediation is the last of those steps. Once a strike is declared, unions are restricted in the actions pickets may take. The struck employer may respond with a lockout. If he chooses to remain open, he is prohibited from hiring strikebreakers or from using administrative personnel to perform jobs normally done by strikers.

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b. The Right to Organize and Bargain Collectively

Apart from the public sectors noted above, the Turkish workers have the right to organize and bargain collectively. Collective bargaining is governed by the Collective Bargaining, Strike, and Lockout Law, passed in 1988. That Law forbids strikes which are not part of the complex collective bargaining process--thus making solidarity, wildcat, and general strikes illegal. Strikes are also forbidden in sectors which would affect the health, lives and property of the public, or national security. In addition, the laws establishing free trade zones forbid strikes for ten years following their establishment, although organization and collective bargaining are permitted. The High Arbitration Board settles disputes in all areas where strikes are forbidden.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor.

d. Minimum Age for Employment of Children

The Constitution forbids employment of children under 15, and requires those over 14 who remain in school to have work hours adjusted to school requirements. In practice, many children under 14 work as street peddlers, in home handicrafts, in family agriculture and in many other endeavors. They are not employed in unionized industrial operations.

e. Acceptable Conditions of Work

The Labor Ministry is legally obliged to set minimum wages at least every 2 years. Labor law provides for a nominal 45-hour workweek, and limits overtime which may be required by an employer. Most workers in Turkey receive non-wage benefits, such as transportation, a hot meal, and sometimes housing or subsidized vacations. Occupational safety and health regulations are mandated, but limitations on resources and lack of safety awareness often result in poor safety records.

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f. Rights in Sectors with U.S. Investment

Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		41
Total Manufacturing		62
Food & Kindred Products	(D)3	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	(*)	
Electric & Electronic Equipment	10	
Transportation Equipment	2	
Other Manufacturing	(D)	
Wholesale Trade		33
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		136

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Turkey country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

UNION OF SOVIET SOCIALIST REPUBLICS

Key Economic Indicators

(Rubles or dollars as indicated)

	1987	1988	1989 (prelim)
Income, Production, Employment (official Soviet statistics)			
National income produced (billion rubles)	599.6	625.0	n/a
Real national income growth (pct)	2.3	4.4	n/a
By sector (pct)			
Industry	44.8	n/a	n/a
Agriculture	20.4	n/a	n/a
Construction	12.5	n/a	n/a
Transport/Communications	6.1	n/a	n/a
Trade/Material/Technical Supply/Other Sectors	16.2	n/a	n/a
GNP (billion rubles) 1/	825	866	n/a
Real GNP Growth (pct)	3.1	5.0	n/a
Unemployment	n/a	n/a	n/a
(U.S. Estimates)			
GNP (billion 1982 $) 2./	2,409	2,536	2,888
GNP (bil 1982 rubles estab prcs)	793	809	n/a
GNP (bil 1982 rubles factor prcs)	719	733	n/a
Real GNP growth (pct) 3/	1.3	1.5	0.8
GNP by sector (pct) 3/			
Agriculture	19	18	n/a
Industry	34	34	n/a
Construction	8	8	n/a
Transportation	10	10	n/a
Communications	1	1	n/a
Trade	6	7	n/a
Services	20	19	n/a
Other	2	2	n/a
GNP per capita (current $)	8,480	8,850	9,350
Labor force (millions)	154.84	155.65	n/a
Money and Prices			
Money supply	n/a	n/a	n/a
Savings (billion rubles)	266.9	297.5	n/a
Average account balance (rubles)	1,424	n/a	n/a
Average monthly wage (rubles)	202.9	227.0	217.0
Industrial workers	221.9	n/a	n/a
Collective farmers	170.0	178.0	n/a
Commercial interest rates	n/a	n/a	n/a
Savings rate (pct nat'l income)	44.5	47.6	n/a
Investment rate (pct)			
National income 4/	34	36	n/a
GNP (U.S. estimate)	32	32	32
Consumer prices indexes (1980=100)			
Offical state retail price	108	n/a	n/a
Official collective farm market	119	n/a	n/a
CPI (U.S. estimate)	116	122	n/a
Wholesale price index	n/a	n/a	n/a

UNION OF SOVIET SOCIALIST REPUBLICS

Balance of Payments and Trade (mils $)	1987	1988	1989 (prelim)
Total Exports FOB	107,664	110,751	105,000
Exports to U.S.	439	547	860
Total Imports FOB	95,969	107,327	111,000
Imports from U.S.	1,448	2,925	4,500
Hard Currency Estimates			
Exports FOB	29,902	31,165	31,500
Imports FOB	22,928	29,518	30,500
Trade balance	6,164	1,647	1,000
Net interest	-1,737	-2,205	-2,481
Current account balance	5,073	1,265	- 815
Change in gross debt	5,008	1,458	n/a
Change in assets	527	1,119	n/a
Net credits to LDCs	4,800	5,500	n/a
Gold sales	3,500	3,800	3,700
Capital account balance	-777	1,886	n/a
Errors and omissions 5/	-4,282	-3,152	n/a
Gross debt	40.8	42.3	47.0
Assets with Western banks	14.4	14.4	15.9
Net debt	26.4	27.9	31.1
Debt service ratio (pct)	24	22	24
Gold reserves (mils troy oz)	74.6	73.6	n/a

1/ In 1988, the U.S.S.R. for the first time published data on Soviet economic growth using the Western concept of GNP. Its estimate for 1987 in current rubles is best compared with CIA's estimate of 796 billion rubles in 1982 "established" prices. The implicit U.S.S.R GNP deflator of 0.8 percent during 1983-87 probably grossly understates the rate of inflation in the Soviet economy. The U.S.S.R.'s initial published GNP estimates were for growth only, and for the years 1986 and 1987 (4.6 percent and 3.3 percent, respectively). These growth rates were subsequently revised downward (to 4.1 percent and 3.1 percent).

2/ The ruble estimate for GNP was converted to 1982 geometric-mean (GM) U.S. dollars by multiplying the ruble value of estimated GNP by the geometric mean of two dollar-ruble ratios--one weighted with U.S. price weights and the other with Soviet weights. The U.S. GNP deflator was then applied to convert 1982 GM dollars to 1987 GM dollars.

3/ Based on estimates in 1982 rubles at factor cost.

4/ The U.S.S.R. reports investment in 1984 prices, while national income produced is reported in current rubles.

5/ Errors and ommissions include Soviet hard-currency aid to and trade with other communist countries, trade credits extended to finance Soviet exports to developed countries, and other nonspecified hard-currency expenditures, as well as errors and omissions in other line items of the balance-of-payments accounts.

UNION OF SOVIET SOCIALIST REPUBLICS

1. General Policy Framework

When General Secretary Gorbachev came to power in March 1985, he inherited a technologically backward country on a downward slope of economic growth. During the previous decade, in particular, the economy was plagued by a string of poor grain harvests (1979-85), industrial bottlenecks, and shortages of labor and energy, all of which contributed to low productivity, declining efficiency of investments, and stagnant--if not falling--living standards. Gorbachev responded to these challenges with a bold and innovative strategy to reinvigorate the economy, first by the orthodox method of trying to improve worker discipline and modernizing industry and its technological base. Later, as those efforts clearly failed, Gorbachev looked to more fundamental reform through increased enterprise autonomy and a restructured incentive system.

Diagnosing the illness has proven much easier than administering the cure. While economic thinking has been transformed, the economy itself has made little visible progress, and overambitious spending has created a spiraling budget deficit which approached 13 percent of GNP in 1989. Since mid-1988, the growing urgency of financial stabilization has slowed momentum toward economic reform. Many measures crucial to the success of the economic reform program have been put on hold. As a result, the economy is still stagnating; in important areas such as food supplies, the situation has deteriorated.

2. Exchange Rate Policies

In 1989 the Soviets implemented a devaluation of the ruble for a limited number of commercial purposes. Although there is talk of further currency reform, no coherent plans have been offered. Rumors of further devaluations are common.

The first currency auction was held at the Bank for Foreign Economic Relations (Vneshekonombank) in November 1989 and are to be held regularly. Participants were allowed to purchase or sell any freely convertible currency, necessary for production activities, for Soviet rubles. This auction has been one of the only steps toward a gradual transition to ruble convertibility.

3. Structural Policies

Gorbachev is in the process of implementing and proposing radical changes in five key areas: planning, prices, supply, finance and credit, and wages. The nature of these changes were spelled out in the 1987 Law on State Enterprises--also applicable to state farms--and its eleven implementing decrees. These changes are to be effected over a three-year transition period (1988-90) so that a "New Economic Mechanism" will be in place by the start of the next Five-Year Plan (1991). A 1988 law on cooperatives is designed to grant the same prerogatives to the collective farms as the state farms are to enjoy in the new economic mechanism.

In the area of planning, the State Planning Committee (Gosplan) is to concentrate on long-range strategic planning and use of "economic levers" instead of "administrative" methods. Under the new "cost-accounting" (khozraschet) system, enterprises were to be given greater autonomy to plan and market their output, make investment decisions, secure supplies, determine wages and elect managers. By January 1, 1989 all Soviet enterprises had been transferred to the new system. Beginning in 1991, enterprises are to formulate their own annual plans based on "non-binding control figures" that will be set by the Council of Ministers and used as "guidelines" for output, profits, and the like. Mandatory "state orders" will help determine enterprise output levels during the transition period.

The shift to "cost-accounting" was supposed to be accompanied by a number of other important reforms, including price reform, creation of a wholesale market, and a drastic reduction in the central planning apparatus. Many of these changes are taking place very slowly; others, most notably price reform, have been set aside for the foreseeable future. As a result, implementation of the new system has had little appreciable impact thus far.

In the area of supply, Gosplan is to organize a 4 to 5 year transition from a centralized "fund"-dominated material supply system to a wholesale trade network--where producers and customers negotiate business transactions--bringing the share of wholesale trade in total supply to 60 percent by 1990 and completing the transfer by 1992. At that time, only "particularly scarce" goods are to be rationed (i.e., centrally allocated).

Separate decrees to the Ministry of Finance and the banks instruct these entities to use bank credits and interest rates as economic levers to promote efficient use of resources by the enterprises and to use bank credits (instead of ministry allocations) increasingly for financing investment. The banking system is being reorganized and expanded to six banks: Gosbank is to function as a central bank and bank of issue; the U.S.S.R. Bank for Foreign Economic Activity, formerly the Bank for Foreign Trade, remains responsible for foreign trade and foreign exchange transactions; the U.S.S.R. Industrial-Construction Bank (Promstroy Bank) is to handle banking for industry, construction, transportation and communications, and Gossnab; the Agro-Industrial Bank (Agroprombank) is to serve the agro-industrial complex; the U.S.S.R. Bank of Housing, Municipal Services and Social Development (Zhilsotsbank) is for housing and social cultural construction, cooperatives, and the Credit (Sberegatel'niy Bank), formerly the State Workers' Saving Bank (Gostrudsberkassa), now has the authority to lend to individuals.

Soviet authorities now also allow the creation of other financial institutions (including commercial, joint-stock, and cooperative banks). By the end of 1988, 24 new banks--primarily cooperatives--had been established. All banks are expected to operate on full cost-accounting and be self-financing. Interest rates will be set by Gosbank with the agreement of Gosplan and the Ministry of Finance and can be differentiated depending on the use of the funds.

The intent of wage reform is to increase the share of basic wages in workers' earnings (from 50-60 percent to 70-75 percent), tailor bonuses more closely to employee and enterprises performance, tighten work norms (which are regularly overfulfilled by large margins), and promote general efficiency by eliminating "wage-leveling" (where workers receive equal pay regardless of performance), so as to encourage workers to work better and acquire new skills.

Prime Minister Ryzhkov introduced an economic plan, passed by the Congress of People's Deputies designed to guide the economy through the mid-1990s. The Ryzhkov Plan sets the creation of a market economy as a long-term goal, but postpones the needed structural changes and outlines the next Five-Year Plan in traditional fashion. The goal is an increase of 66 billion rubles of consumer goods in 1990 through compulsory state orders, accelerated conversion of defense industries, and investment cuts. In agriculture, the Plan has a traditional focus on increasing infrastructure investment, and only mentions, with little emphasis, leasing and family farming.

While alluding to the need for structural reform in general terms, the Plan emphasizes that major enterprises will remain "within the sphere of direct state management." The Plan does, however, propose firm dates for price reform, including new wholesale and agrarian purchase prices in 1991 and the completion of retail price reform in 1992. Soviet leaders call Ryzhkov's Plan a "stabilization program" and apparently hope to move ahead with economic reform once the consumer goods market has been stabilized.

State budgetary expenditures account for more than three-fourths of the U.S.S.R.'s national income produced and more than half of its gross national product (GNP). In 1986 Gorbachev's campaigns to cut alcohol consumption and increase industrial investment drove the deficit up to 7 percent of GNP. His 1988 decision to increase spending on social programs produced a jump to 9 percent. The 1989 deficit was estimated to be 115 billion rubles, or 13 percent of GNP. The Minister of Finance has admitted that the budget had been in deficit for several years, although he failed to correct the official data, which show it to have been in surplus. These deficits are intensifying the inflationary pressures in the economy and are particularly ill-timed, given Soviet efforts to reform the economy. They have resulted in a growing "currency overhang" (unsatisfied purchasing power in the hands of consumers) that has led to inflation (unofficially estimated at 6-8 percent in 1988) and shortage of many basic food items and consumer goods. The leadership is putting increased pressure on the defense industries to produce consumer goods and otherwise to help the consumer-oriented industries.

Exports account for a very small share of Soviet economic activity (roughly less than 5 percent of estimated GNP). As part of their economic reform program, the Soviets are trying to open their economy more to the world. Beginning in April 1989, all Soviet enterprises were permitted to apply for licenses to engage in direct links with foreign partners, and were allowed to retain a larger percentage of the foreign currency they earned. The U.S.S.R. also is allowing foreign investment--including Western equity investment joint ventures--on Soviet territory. Over 1300 joint ventures were reportedly signed by December 1989, but thus far they have mostly been small-scale projects in the service sector. The Soviets announced changes in their joint venture law to allow Western majority ownership. However, political uncertainties, Soviet economic rigidities, and the difficulty of repatriating profits have limited the willingness of Western partners to make large-scale investments.

4. Debt Management Policies

Despite the recent run-up in Soviet hard-currency debt, the U.S.S.R. remains an excellent credit risk in the eyes of its Western creditors. Gross debt roughly doubled since the early 1980s to $42 billion at the end of 1988, although the growth is much less when adjusted for exchange rate changes. The U.S.S.R.'s debt service ratio--interest and principal payments as a share of total hard-currency earnings--climbed from 15 percent in the early 1980s to 22 percent in 1988 but remains manageable. The Soviets historically have been very conservative about borrowing.

5. Significant Barriers to U.S. Exports.

Given the ruble's inconvertibility, Soviet import capacity is limited by the U.S.S.R.'s ability to increase export earnings--which have suffered from low world energy prices--and the availability of Western credit and Soviet willingness to draw on those credits. During the 1980s, the U.S.S.R. has incurred sizable trade deficits with the United States--from $1 billion to $3 billion, depending upon the size of U.S. grain exports. It seems likely that this pattern of trade will continue. U.S. business faces stiff competition from the Western Europeans and the Japanese, most of whom have been running trade deficits with the U.S.S.R. and who are offering the U.S.S.R. sizable lines of credit as they compete for Soviet orders for machinery and equipment, particularly for the food and light manufacturing industries. U.S. companies do not have access to government-backed credit programs for exports to the Soviet Union.

UNION OF SOVIET SOCIALIST REPUBLICS

6. Export Subsidies Policies

(n/a)

7. Protection of U.S. Intellectual Property Rights

The U.S.S.R. is a member of the World Intellectual Property Organization, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty, and the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure, and other international treaties relating to intellectual property.

The U.S.S.R. currently issues both patents and certificates of authorship. The right of the inventor can be protected, at the choice of the applicant, either by a certificate of authorship or by a patent; only a patent entails the exclusive right for the applicant to use the invention. Certificates of authorship acknowledge the authorship of the inventor, and grant him rights and advantages stipulated by the legislation in force, whereas the exclusive right to use the invention belongs, for a period of fifteen years, to the state. The U.S.S.R. is currently drafting a comprehensive and completely overhauled patent law, which should provide better protection.

Since the Soviet accession to the Universal Copyright Convention in 1973, foreign works have enjoyed copyright protection in the Soviet Union. At present, foreign authors and publishers can negotiate publication contracts with Soviet publication houses. There have been instances of unauthorized publishing of works created abroad before Soviet accession to the Convention. The Soviets have announced their intention to modify their copyright law and to join the Berne Convention.

8. Worker Rights *

a. The Right of Association

In the Soviet Union, there is no right of association as defined by the International Labor Organization, though in practice the authorities showed an increasingly liberal attitude toward the free association of workers in 1989. Although approximately 30 functional trade unions exist in the U.S.S.R., encompassing virtually the entire Soviet labor force, all of these fall under the direction of the officially sponsored All-Union Council of Trade Unions (AUCCTU), a governmental umbrella mass organization which advances Soviet and communist international labor interests. The AUCCTU serves primarily as a means of political indoctrination, control, and propaganda; neither it nor its constituent organizations actually advance worker interests. Despite the AUCCTU's official role, independent labor activity emerged in 1989.

b. The Right to Organize and Bargain Collectively

Under terms of the June 1987 "Law on State Enterprises," managers can fire excess labor and divide the wage fund among fewer workers, thereby raising salaries. Soviet authorities have stated publicly that they anticipate 16 million workers will be "released" from their jobs by the year 2000 and 3 million in the current Five-year Plan. As the Soviet Constitution guarantees the right to work, those released theoretically will be retrained for other jobs, sometimes requiring relocation. Although reform legislation on organizing and collective bargaining is under consideration, it has not yet been passed.

c. Prohibition of Forced or Compulsory Labor

Soviet law contains no prohibition on forced or compulsory labor. Most political prisoners, as well as most ordinary criminals, are confined to camps where they are forced to labor, often under harsh and degrading conditions, on Soviet developmental projects and to assist in the production of primary and manufactured goods. Goods are manufactured on behalf of nearby factories and are included in those factories' quotas and production statistics. Prisoners are theoretically paid the same wage as factory workers, but up to 90 percent of their pay goes to prison authorities, supposedly to cover the cost of their maintenance.

Workers are required periodically to "donate" a working Saturday for which they receive no pay. For blue-collar workers, this means an unpaid day at the factory; white-collar workers are expected to put in time cleaning up their neighborhoods and performing other social services. Labor resources frequently are drawn at harvest time on a paid and unpaid basis from educational institutions, the military, office workers, and other city residents for work in the fields.

d. Minimum Age for Employment of Children

The statutory minimum age for employment of children is 16, and the standard workweek is 40 hours. There is no indication of widespread violation of these norms.

e. Acceptable Conditions of Work

The Soviet Union has no legislated minimum wage. According to the Soviet state statistical committee, the average monthly wage for blue- and white-collar workers in mid-1989 was $373 and for collective farm workers $263 at the October 1989 official exchange rate. (The ruble is not a convertible currency, and its value here in terms of the U.S. dollar does not represent actual purchasing power for international comparison.) The mean wage, however, is estimated by Western observers to be in the area of $220-225 per month. General Secretary Gorbachev has supported efforts to raise the prestige of professions that are crucial to scientific and technical progress by raising salaries. Wages in the health sector have also increased in the past year.

The average workweek is 40 hours for most white-collar workers and 48 hours for blue-collar workers. Annual leave for vacations varies according to a number of factors, but most Soviet citizens receive 4 weeks or more of paid vacation each year.

Soviet law establishes minimum conditions of health and safety. Press reports, however, suggest that laws on health and safety standards are widely ignored, as are those regarding maximum hours of work.

f. Rights in Sectors with U.S. Investment

In early 1987, the Soviet Union allowed direct foreign investment for the first time. By December 1989, over 1300 joint ventures were reportedly signed, including 100 or so with U.S. companies. Compared to the scale of the goods-producing sectors in the Soviet economy, total U.S. direct investment is relatively insignificant.

There is no data available on U.S. investment in the Soviet Union.

* Section 8 is an abridged version of Section 6 of the Union of Soviet Socialist Republics country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

THE UNITED KINGDOM

Key Economic Indicators

(Billions of pounds sterling unless other noted)

	1987	1988	1989 (est)
Income, Production and Employment			
Real GDP (1988 prices) 1/	334.9	349.8	357.0
Real GDP growth (pct)	4.3	4.5	2.1
GDP (at current prices) 1/	355.6	394.8	430.0
GDP by sector			
Agriculture	5.79	5.63	6.08
Energy and water	23.98	21.84	23.60
Manufacturing	83.01	93.43	100.90
Construction	22.68	25.74	27.80
Rents	20.18	21.41	23.12
Financial services	65.58	76.92	83.07
Other services	97.22	109.57	118.34
Govt/health/education	56.40	62.26	67.24
Net exports of goods & services	-9.83	-21.32	-23.03
Real per capita GDP (pounds)	6,648	7,000	7,132
Labor force (1000s)	28,000	28,200	28,200
Unemployment rate (pct)	10.4	8.3	6.2
Money and Prices (annual pct growth)			
Money supply (M2)	10.9	16.0	7.8
Base interest rate (pct) 2/	10.0	10.5	14.0
Personal saving rate (pct)	6.2	4.4	4.2
Retail inflation (pct)	4.1	4.9	7.2
Wholesale inflation (pct)	3.9	4.5	5.9
Exchange rate ($1.00/pound) (pct)	1.64	1.78	1.62
Balance of Payments and Trade			
Total exports FOB 3/	107.4	106.9	117.9
Exports to U.S. 4/	18.2	18.9	20.8
Total imports 3/	112.1	124.1	138.1
Imports from U.S. 4/	15.1	19.4	22.3
Trade balance 3/	-4.3	-17.2	-20.2
Balance with U.S. 4/	3.1	-0.5	-1.5

1/ GDP at factor cost
2/ figures are actual, average annual interest rates, not changes in them.
3/ trade in goods and services
4/ merchandise trade with U.S. only

1. General Policy Framework

The economy of the United Kingdom (U.K.) is based on free enterprise and open competition. Its few barriers to international trade and investment include preferential and electrical equipment. The United Kingdom otherwise is very open to international trade, particularly in financial services. Recent economic policy has been dominated by efforts to control inflation, to stabilize the floating exchange rate, and to neutralize the monetary effects of the Government's current budget surplus, now over 12 billion pounds. GDP is growing by about 2 percent per year, the underlying rate of inflation is nearly 6 percent, and unemployment is under 7 percent.

Fiscal Policy: Despite a series of tax reductions in recent years, the budget is expected to be in surplus for the second year in a row, this time by 12 to 15 billion pounds. The surplus is the result of higher revenues and constrained expenditures. Tax revenues have grown handsomely as corporate profits, productivity and wages have risen and umemployment fallen. Consequently, corporate, personal-income and value-added tax payments have grown strongly. The Government recently achieved its goal of reducing the basic rate of personal income tax to 25 percent and has set a new target of 20 percent to be achieved "as and when prudent to do so."

With revenues rising and rates being cut, the Government has also kept a tight lid on public sector expenditures. Over the past six years real public expenditures have grown more slowly than gross domestic product and have declined to 37.5 percent of GDP in financial year 1988. The Government expects this ratio to continue to fall to below 36 percent by the end of financial year 1991.

The privatization (sell-off) of government enterprises is also affecting budget balances. Privatization not only provides revenue from asset sales, but also reduces the drain of subsidies from the treasury. As the Government is using its budget surplus to pay off outstanding debt, the burden of interest payments in future budgets is also being steadily reduced.

Monetary Policy: The United Kingdom faces two major, related economic problems at the present time, namely inflation and a large current account deficit (over 4 percent of GDP). With fiscal policy already generating a sizable surplus (over 2 percent of GDP) there is not much room for tightening on that front. Therefore, monetary policy bears the full burden of cooling the economy and reducing the demand for net imports.

The Government manages monetary policy through discount operations and by buying and selling in the markets for overnight funds and commercial paper. There are no explicit reserve requirements and no commodity standard. For the past two years, broad money has ceased to be targeted, although M0 (circulating cash, coin and reserves in the Bank of England) has been targeted for 3 to 5 percent growth.

The two main indicators of monetary policy are now the exchange rate and the base interest rate. The base rate is similar to the U.S. prime rate, but it is also the rate at which the central bank is usually willing to offer overnight funds and/or rediscounts. In the past 18 months, the Bank of England has engineered a rise in the base rate to 15 percent. While the high level of interest rates appears to be cooling domestic demand, it is also supporting the value of the pound. In the short-term, the strength of the pound, and its resultant facilitation of imports, is good news for U.S. and other exporters.

2. Exchange Rate Policy

The British pound is officially floating, but since 1985 the authorities have increasingly incorporated exchange rate objectives into their monetary policy, both to provide an anchor for inflationary expectations and to provide a visible disciple to monetary actions. Britain has not yet joined the exchange rate mechanism of the European Monetary System (EMS) but has announced that it will do so when its inflation is further reduced and when additional progress has been made in financial and economic integration of the EC.

The United Kingdom in 1989 ran a current account deficit equal to 4 percent of GDP. The British Government has taken the view that the large imbalance, while unwelcome, is mainly a reflection of private sector behavior, since the Government accounts are in surplus. As a private sector phenomenon, they expect the deficit will contract as domestic demand growth retreats from the boom conditions of 1987 and 1988. Improvement in the payments imbalance is expected as a byproduct of a tight anti-inflationary monetary policy. Pursuit of competitiveness gains through currency depreciation has been rejected by the Government because such a policy is considered inflationary.

3. Structural Reform

Over the past ten years, the Thatcher government has promoted structural reform to increase the efficiency and growth potential of the British economy. It has deregulated financial services, telecommunications and transportation. It has ended capital controls. Mortgage regulations have been liberalized and much of the public housing stock has been privatized. It has privatized producers of motor vehicles, aircraft, steel, and the water utilities. Subsidies designed to give British firms dominance in the market, and, therefore, to keep out imports, have been slashed. The Government has passed four employment bills to increase labor flexibility, democratize unions, and make unions accountable for the industrial acts of their members. These fundamental structural reforms have stimulated investment, employment, economic growth, and demand for domestic and foreign goods alike.

Structural problems that impede investment, economic growth, and trade still remain, however. Investment in rental housing is stifled by extremely strong tenant rights that effectively prohibit a landlord from either evicting a tenant or increasing rents in line with market conditions. Industrial efficiency is impeded by the capacity of union members to engage in unofficial strikes, without exposing the unions to penalties. Archaic road and traffic measures drive up operating costs. Weak educational programs for the average person after the age eleven do not supply the skill levels needed for growth in high technology areas. And, most privatized enterprises are just beginning to feel the winds of real competition, and still have many inefficient habits that will take time to correct.

Her Majesty's government is aware of most of these shortcomings and is moving to correct them. As a consequence the medium- and longer-term future of the British economy is relatively bright, though a slight downturn appears under way. Any flattening of U.S. exports to Britain in the coming few months should be short-lived, followed by steady growth.

4. Debt Management Policies

As a government, the United Kingdom has no meaningful external public debt. Because London is one of the foremost international financial centers of the world, British financial institutions have been major intermediaries of credit flows to lesser-developed countries (LDCs). The British Government was an active but cautious participant in the negotiations of a strengthened debt strategy. British banks play a prominent role in bank advisory committees on LDC debt.

5. Significant Barriers to U.S. Exports and Investment

Offshore Oilfield Contracts: For more than ten years the United Kingdom has provided preferential treatment to British-based firms that provide offshore oilfield supplies and equipment services. The U.K. Department of Energy's Offshore Supplies Office (OSO) has an aggressive policy of providing a "full and fair opportunity" for British-based firms to compete for and win North Sea contracts. The cooperation of oil companies toward OSO's goals is one factor among others used in awarding future exploration rights in the U.K. sector of the North Sea. In January 1985, the Government made this policy officially more discriminatory by encouraging oil companies to award contracts involving new offshore technology to firms with majority British ownership.

Government Support for Commercial Aircraft: The United Kingdom is providing $775 million to support the launch of the Airbus A330 and A340 commercial transport aircraft programs. The new models, and existing aircraft developed with significant government support, compete directly against U.S. Boeing and McDonnell-Douglas aircraft.

UNITED KINGDOM

Large Electrical Equipment: Previously all electricity in England and Wales was generated by the Central Electricity Generating Board (CEGB), a government-owned corporation. In Scotland energy was generated by two government-owned utilities. No large steam turbine generator units or large power transformers in the system or any of their major parts used in the United Kingdom were imported by any of these government entities. However, the Government in 1988 introduced legislation to privatize the electricity industry in England and Wales.

As a prelude to privatization, National Power and Powergen, two power generating companies, have been created as corporate successors to the CEGB. National Power and Powergen will sell power to regional distribution companies. A privatized industry offers much better sales prospects for U.S. equipment, fuel and technology (particularly "clean coal'.) National Power and Powergen officials have met with U.S. firms and vendors, and prospects for U.S. sales look good.

In general, persons resident outside the United Kingdom can invest freely within the U.K. subject only to those restrictions which apply equally to U.K. residents, e.g., the Monopoly Law. The Secretary of State for Transportation must approve air transport licenses of applicants who are not U.K. nationals, or bodies incorporated in the United Kingdom (or certain overseas territories). Non-national airlines are generally not permitted to carry passengers from one national airport to another. The Financial Services Act of 1986 permits the application of the principle of reciprocity (rather than national treatment) in the financial services area. The 1987 Banking Act gives the Government the power to decide the suitability of foreign investments in British banks. A foreign investor with more than five percent of the stock of a British bank must inform the Bank of England. The Bank also has the power to prevent foreigners from acquiring a controlling interest (defined as 15 percent or more) if it deems the bidder "not fit and proper." The question of reciprocal access to the bidder's banking market is also taken into account.

The Government is sometimes pressured to block the foreign takeover of a British company. The Government claims the right to limit foreign holdings in strategically sensitive privatized companies, such as Rolls Royce, British Aerospace, and British Airways. In October 1988, the Government invoked "the national interest" when ordering that the 21.6 percent Kuwaiti share in British Petroleum be reduced to 9.9 percent within one year.

6. Export Subsidies Policies

The current government strongly dislikes subsidies, and U.K. trade-financing mechanisms are not generally seen as significantly distortive of trade. Britain does have the Export Credits Guarantee Department (ECGD), an institution similar to the Export-Import Bank of the United States.

Although much of ECGD business is conducted at market rates of interest, it does provide some concessional lending for projects in developing countries. Occasionally, the United States objects to financing offered to specific projects. For example, in 1988 the U.S. Government objected to ECGD financing for U.K. machinery destined for modernization of a steel mill in India.

The development assistance (aid) program of the United Kingdom also has certain "tied aid " characteristics. To minimize the distortive effects of such programs, particularly when used in conjunction with ECGD-type credits, the United States negotiated with the United Kingdom and other developed countries the 1987 "arrangement on officially supported export credits." There are no indications that Britain has not adhered to the arrangement.

7. Protection of Intellectual Property

The United Kingdom is a signatory to all relevant international intellectual property conventions, including the Berne Copyright and Universal Copyright Conventions and the Paris Convention for the Protection of Industrial Property and to the Patent Cooperation Treaty.

U.K. intellectual property laws are strict, comprehensive and rigorously enforced.

A new copyright law is designed to make copyrighting a more simplified, user-friendly procedure and contained the authority to the most recent acts under the Berne Convention.

The U.K. patent law contains compulsory licensing provisions but these are rarely invoked.

Britain's positions in international fora, such as WIPO and the Uruguay Round negotiations, are very similar to U.S. positions.

8. Worker Rights *

a. The Right of Association

British workers have the right to associate freely, choose their own representatives, publish their own journals, openly promote their members' interests and views, and elect representative assemblies through which union policies and procedures are determined. Unionization of the work force in Britain is not restricted, and legislation prevents employers from discriminating against individuals because of union membership. However, there is no legal provision requiring employers to recognize trade unions or to bargain with them.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is deeply rooted in common law and widely practiced. There is no legal obligation for collective bargaining but, although voluntary, it is extensively practiced. The Government actively encourages dispute resolution through the governmental Advisory Conciliation and Arbitration Service (ACAS). Such arbitration is voluntary, under conditions agreed to by the disputants. Employers and trade unions make extensive use of ACAS. There are no export processing zones in Britain.

In law, there is no formal right to strike. Voluntary cessation of work may be considered as breaking the employment contract. Contract employees can be fired for breach of contract if they walk out.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is unknown in Britain.

d. Minimum Age for Employment of Children

The compulsory school age is 16. Education authorities have the right to limit or prohibit the employment of children (under 16) when they believe such employment to be detrimental to their formal education.

e. Acceptable Conditions of Employment

The U.K. does not have legislated minimum wage rates. U.K. health and safety legislation is comprehensive and places an obligation on all employers to safeguard the health of workers and others at the workplace.

f. Rights in Sectors with U.S. Investment

All of the sectors with U.S. investment are unionized to some degree. U.S. firms recognize and bargain with workers' representatives to the same degree as other U.K.-based companies. U.S. companies operating in the United Kingdom are obliged to obey worker rights' legislation, including health and safety standards. In the wake of the 1988 Piper Alpha oil rig disaster, in which more than 130 workers died, safety standards in the petroleum industry have been under scrutiny. Discussion has focused on safety inspections and safety training for workers on oil rigs in the North Sea. There has been no suggestion that U.S.-owned companies in the industry have a better or worse safety record than other companies.

UNITED KINGDOM

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		9,327
Total Manufacturing		18,867
Food & Kindred Products	2,715	
Chemicals & Allied Products	3,546	
Metals, Primary & Fabricated	731	
Machinery, except Electrical	3,347	
Electric & Electronic Equipment	997	
Transportation Equipment	2,469	
Other Manufacturing	5,061	
Wholesale Trade		2,805
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		30,999

Source: U.S. Department of Commerce, *Survey of Current Business*
August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the United Kingdom country report included in the Department of State's *Country Reports on Human Rights Practices for 1989*, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

YUGOSLAVIA

Key Economic Indicators

(Millions of U.S. dollars unless Yugoslavian
dinars (YuD) or otherwise noted)

	1987	1988	1989
Income, Production, and Employment			
Gross Social Product 1/			
bils 1986 $	57.5	56.3	57.2
bils current $	66.8	56.7	57.5
bils current YuD	49,212	146,985	1,641,088
GSP per capita (1986 $)	2,454	2,391	2,412
Current $	2,851	2,405	2,426
Current YuD ('000)	2,102	6,239	69,229
GSP by sector (pct share)			
Manufacturing	58	62	n/a
Agriculture	15	11	n/a
Productive services	27	28	n/a
Inflation (pct chg) 2/			
Retail prices	167.4	251.2	2,300
Producer prices	158.1	274.1	2,000
Cost of living	170.6	240.6	2,400
Labor force ('000) 3/	6,866	6,884	6,867
Unemployment (pct)	13.6	14.1	14.7
Indus product (pct chg)	0.6	-0.7	2.0
Agric product (pct chg)	-5.0	-3.3	5.0
Money and Prices			
Money supply (M1) (bils curr YuD)			
Year-end	7,644	24,069	122,700
Balance of Payments and Trade			
Exports (worldwide)	11,425	12,779	13,904
Imports (worldwide)	12,603	13,329	14,782
Trade balance			
Worldwide	-1,178	-550	-878
Convertible currency	-1,068	-588	-1,234
Net invisibles	2,426	3,037	3,520
Convertible	2,105	2,798	3,220
Tourism inflows	1,668	2,024	2,100
Current account balance	1,248	2,487	2,642
Convertible	1,037	2,210	1,986
Exchange rate (avg) (YuD/$)	737.00	2,522.6	2,853.2

1/ Gross social product (GSP) or material product is the total output of goods plus services regarded as productive which is generally 10-15 per cent less than GNP.
2/ December over December previous year, based on statistics reported for ten months of 1989.
3/ Socialized sector, excluding police and armed forces, plus those employed in the non-agriculture private sector, with the exception of the self-employed.

YUGOSLAVIA

1. General Policy Framework

After several years of indecision and internal debate, Yugoslavia now seems on a course toward genuine market reform. Marxist ideology still acts as a brake on the definition and elaboration of property rights, but under the leadership of Federal Executive Council (FEC-the Cabinet) President Ante Markovic, a number of ideological breakthroughs have been realized. Since May 1989, the Markovic government has instituted significant measures aimed at opening the country to greater import competition and foreign investment. The FEC has a goal of reducing public regulation and simplifying the administrative structure in the economic system. Laws to streamline decision-making in enterprises; to improve creditworthiness standards in the banking system; and to establish credit and equity markets were passed by the Federal Assembly. While it is too early to judge the impact of this legislation, these steps, coupled with greater opportunities for private sector business, offer strong prospects for restoring economic growth and stimulating development.

In Yugoslavia's highly decentralized self-management economy the republics, rather than the federal government, exert most of the authority in economic policy. Macro-economic policy coordination is weak and the federal government has few of the fiscal and monetary levers present in most modern states at its disposal. The federal government has proposed additional legislation and is seeking extensive constitutional change to obtain the authority it needs for effective fiscal and monetary policy management.

However, sharp regional disparities, ideological resistance to market-oriented reforms, and difficult economic restructuring issues have slowed the pace of economic adjustment. Given Yugoslavia's high unemployment rate (15 percent) and considerable redundant employment in industry, there will be continued substantial popular resistance to the layoffs and bankruptcies which are essential to reducing inflation (now in the range of 2000 percent on a year-on-year basis) and directing capital to competitive sectors of the economy.

While the internal economic situation remains muddled, Yugoslavia's external economic performance has been quite robust. Trade with convertible currency markets, both exports and imports, has expanded significantly in 1986-89 and it appears Yugoslavia may achieve a convertible currency current account surplus of $2 billion in calendar year 1989. This is Yugoslavia's sixth consecutive current account surplus. Foreign exchange reserves are now adequate to cover more than four months of import needs and are at record levels. Reschedulings and debt swaps (initiated at the end of 1988) have reduced the debt service ratio from 43 to 25 percent (debt service as a share of hard-currency exports). Yugoslavia's foreign debt is equal to about 35 percent of annual gross social product (GSP), but it is should be noted that the Yugoslav measure of GSP approximates but is generally

10 to 15 percent less than GNP. Outstanding foreign indebtedness is equivalent to 95 percent of the annual export of goods and services, only one-third the average debt ratio for the 15 "Baker" major debtor countries. Yugoslavia is in the process of negotiating a new standby arrangement with the International Monetary Fund (IMF) which would clear the way for debt relief from foreign governments and enable Yugoslavia to tap World Bank structural adjustment lending to support additional structural economic reforms.

Fiscal Policy: Federal budget revenues are derived mainly from customs duties and sales taxes, and from tax contributions of the republics. While federal expenditures constitute a small share of GSP, public consumption at republic, provincial and municipal levels is extensive. To better monitor public consumption, off-budget obligations were incorporated into the 1989 federal budget for the first time since the mid-1960s. Budget deficits have been met traditionally by de facto borrowing from the National Bank of Yugoslavia (the Central Bank). In 1989 the introduction of sales of government bonds and bills instilled more discipline in public financing at federal and local levels.

Monetary Policy: The National Bank employs discount rates, reserve requirements and credit ceilings on commercial banks to regulate the money supply. However, in Yugoslavia's inflationary environment, effective control over the monetary stock has proven elusive. National Bank officials estimate that only 30 percent of the monetary base is under National Bank control. Thus, Bank efforts to implement a restrictive monetary policy to slow inflation have proven ineffective. In 1988, M1 increased in nominal terms 224 percent, lagging 27 percentage points below the retail price index. During January-July 1989, M1 increased by 219 percent nominally, or 123 percentage points below the retail price index. In the face of ineffective monetary controls, inflation has rocketed upward to monthly rates of 50 percent in September and October 1989 (an annualized rate exceeding 10,000 percent).

National Bank monetary policy is eroded by the absence of effective controls over so-called "grey emissions," namely the creation of unofficial money substitutes which become part of the money supply. The extraordinary injection of liquidity has been generated by unsecured promissory notes, chronically overdue accounts receivable and bank credit payments, and consumer check overdrafts. While the Markovic government has sought to strengthen the Bank's commercial independence, there is strong resistance to more rigorous banking practices. The FEC gained approval for a banking law passed at the end of 1988, and amended in 1989, that sets stricter standards for the rechartering of viable banks and provides authority for the eventual dissolution of insolvent financial institutions. In a major step forward, the law also opens banking to foreign investors. Several U.S. and Western banks are presently negotiating to establish branches in Yugoslavia. The establishment of foreign-controlled banks (with ownership of up to 99 percent of paid-in capital) would accelerate debt swaps and increase competition in Yugoslavia's banking sector.

YUGOSLAVIA

2. Exchange Rate Policies

On January 1, 1990 Yugoslavia became the first nation in eastern Europe to adopt a convertible currency, as part of a sweeping anti-inflation program. Under the plan, the dinar became fully convertible for all international transactions. Its rate of exchange was fixed, and pegged to the deutschemark. All enterprise, foreign businesses and individuals are free to exchange dinars for foreign currency through the banking system. The convertible dinar is issued at a rate of one to ten thousand old dinars. Initial reports indicate that more people are selling foreign currency for new dinars than vice versa.

Yugoslavia's foreign exchange reserves improved substantially in 1989 over 1988 levels. Reserves were more than $5 billion in October 1989, sufficient for more than four months' import coverage. At year end, Prime Minister Markovic announced plans to increase reserves by another $2 billion in 1990. The strong improvement was attributed to relaxed regulations for citizen's domestically-held foreign exchange accounts, good export and tourism performance, increased confidence in the domestic climate as reflected by larger remittances from Yugoslav workers abroad (accounting for one-fifth of foreign exchange revenues), and the impact of debt rescheduling involving official and private sector obligations.

3. Structural Policies

Internal inefficiencies underlie generally stagnant economic growth. Agricultural output will rise 3 to 5 percent over the drought-plagued 1988 level, recovering to 1987 performance but still below the production levels of the mid-1980s. Industrial output in 1989 is projected to rise by 2 percent above the 1988 level. Labor costs remain low, but wages continue to be disbursed without regard to productivity or business performance. For the year 1989, wage increases kept current with and probably outpaced inflation by about 4 percent. Unemployment averages 14.7 percent but is unbalanced regionally at less than 3 percent in the most developed region (Slovenia), and over 35 percent in Kosovo Province. Expansion of the private sector can generate some modest new employment. The non-agricultural private sector generates six percent of GSP.

Yugoslavia's import-substitution economic development strategy led to pervasive protection for domestic industry and agriculture. Already in the mid-1960s, the economy manifested problems of cumbersome over-regulation and politically-directed resource allocation aimed at discouraging competition and favoring socialist, egalitarian values. The Markovic government's measures now are directed to boost competition and promote enterprise profitability and entrepreneurship through price and trade deregulation.

YUGOSLAVIA

Domestic price controls are largely eliminated with 75 percent of prices now freely set, 12 percent requiring advance notification, and only 12 percent remaining directly controlled. The federal government intends to eliminate energy subsidies and raise prices to cover full production costs, although there was slippage in 1989 due to concerns of the impact of energy price increases on domestic inflation. A redefinition of property relations is pending. The intention is to redefine ownership of social property to facilitate sale of assets and perhaps enterprises themselves. If sustained, this could lead to more efficient resource allocation.

Enabling legislation to create a stock market was passed in October 1989 and the Government hopes to establish a functioning equities market by mid-1990. Significant trade liberalization was carried out in 1989 to stimulate domestic competition and boost efficiency through increased import levels. Import tax rates fluctuated in 1989 as authorities attempted to satisfy competing objectives of generating revenues for federal budget obligations while stimulating imports through duty reductions and special exemptions.

Quantitative and licensing restrictions were significantly liberalized in 1989, leaving over 80 percent of imports unrestricted. Quotas remain for 15 percent of imports, while most licensing requirements were eliminated except for medicines, weapons and internationally-regulated items. Foreign trade operations once limited to about 1200 authorized firms are now open to virtually all firms in the socialist sector and to private sector businesses.

Business income tax rates vary widely by region but the Yugoslav concept of enterprise income includes a portion of workers' wages and salaries, differing markedly from U.S. or Western European taxation concepts. Business taxes and compulsory contributions for social programs (health, culture, sports, etc.) are a heavy burden on businesses, and change unpredictably. This is a major complaint of prospective foreign investors who find it difficult to compare costs in different locations throughout Yugoslavia and to assess Yugoslav tax attractiveness in comparison with other foreign countries.

Besides limiting public consumption growth to zero, federal officials are seeking constitutional changes in order to consolidate tax policy and set the stage for more sustainable growth. There is no effective national incomes policy. Institutionalized self-management practices aggravate firm illiquidity and vitiate prudent business management practices. Previously mandated administrative wage limits proved easy to circumvent. Federal authorities are presently pursuing a Yugoslav-wide social accord (having the force of law) to slow wage growth, but its probable impact is in doubt. In general, wages are disbursed without regard to productivity or business performance. For the year 1989, real wages increased about 4 to 5 per cent on average.

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4. Debt Management

Excessive external borrowing in the 1970s enabled Yugoslavia to offset deterioration in its terms of trade in the short run, but led to major debt solvency and balance-of-payments problems throughout the 1980s. In recent years, balance-of-payments constraints have exacerbated domestic policy management and contributed to Yugoslavia's high and accelerating inflation. Growth in the 1980s has slowed markedly and unemployment has increased, particularly in less developed regions of the country. Yugoslavia's medium-term total foreign debt obligations are estimated at $16.5 million. Short-term trade credits add roughly $1 billion to total foreign indebtedness. Yugoslavia has credit exposure amounting to approximately $3.4 billion, mainly extended to Middle Eastern and North African states.

Yugoslavia is a consistently responsible debtor, and repaid more than $2 billion in principal and interest in 1989. That same year, through prepayments and debt conversions, Yugoslavia further reduced its debt by more than $800 million. From January through August 1989, Yugoslavia paid on average 48 percent of face value in its debt conversions, a majority of which occurred to support trade transactions instead of preferred equity swaps. Yugoslavia's most recent IMF standby, signed in June 1988, lapsed after several months because of failure to cut public and private consumption and restrict the money supply to achieve a lowered inflation target. Yugoslavia is actively engaged in discussions with the IMF to conclude a new formal agreement in order to qualify for IMF support. Such support is important to maintaining positive Yugoslav relations with official government creditors and commercial banks, and with the World Bank to ensure resources are accessible to support structural economic changes.

5. Significant Barriers to U.S. Exports and Investment

The lifting of many import restrictions and the progressively more rational domestic regulatory climate in 1989 have reduced trade barriers considerably. With foreign trade legalized for small and private Yugoslav companies, the cartel-like behavior of the previously limited number of authorized foreign trade companies will be challenged. Despite some tariff cutting, customs duties, on average, remain relatively high centering on 25 percent on average.

In addition to customs duties, there are separate import taxes which are also assessed on the value of imports. The rate of the import taxes fluctuated during 1989. The introduction of numerous exemptions and exceptions to duties (e.g., for Yugoslav students returning with items such as microscopes) will have a minor stimulative effect on imports compared to a discouragingly high cumulative 21 percent import tax rate which applies from November 1989 on the majority of goods. The fluctuating import tax rates are evidence of the frequency of Yugoslav regulatory changes which lead to uncertainty and act as a disincentive for foreign businesses. Imposition of higher imports taxes became the most expedient means to raise needed revenues for the federal budget deficit.

Policy on investment incentives or performance requirements is not uniform at federal, republican, provincial or municipal level and U.S. firms particularly complain about pressure to accept desired Yugoslav offset terms. Federal support programs exist offering subsidized credits and special foreign exchange availability to promote export production, but these benefits are extended without regard to comparative advantage.

Yugoslavia is a signatory to the Antidumping, Customs Valuation, Import Licensing, Technical Barriers, and Subsidies Codes of the General Agreement on Tariffs and Trade (GATT). It has not accepted, but observes, the Bovine Meat and Civil Aircraft Codes. Yugoslavia has not signed the GATT Government Procurement Code. U.S. companies have not raised concerns that Yugoslav health, testing, or other regulatory standards pose trade barriers. As an exception, a joint science project is underway aimed at harmonizing U.S. and Yugoslav standards that would facilitate Yugoslav imports of U.S. livestock and embryos.

The 1988 Foreign Investment Law opened all sectors to foreigners except rail and air transport, communications, media and publishing, and insurance. Foreigners may establish wholly-owned firms except in banking where there must be a least a one percent Yugoslav stake. Pending legislation may allow foreigners for the first time to purchase buildings (conditioned on the conduct of business therein) and have use of adjoining land but they will not be permitted to purchase, or gain by transfer, direct title to land. Investors retain previous guarantees for priority foreign exchange allocations to repatriate profits. Employment of foreign nationals has also been streamlined, requiring primarily local residency approval. There are no formal performance requirements imposed on wholly foreign or joint venture investments. Grandfathering provisions permit established investors to choose the best conditions offered by the old or new legislation.

6. Export Subsidies Policies

Direct and Indirect Export Subsidies: The primary support to industries whether export-oriented or producing for the domestic market has been officially directed access to foreign exchange without regard for comparative advantage. Other economic incentives are provided by local governments through discounts on key factor inputs, or tax reductions or rebates which indirectly subsidize export industries but also industries producing for the domestic market. Federally-subsidized credits are available to support agricultural production and exports, but budgetary resources for the latter are increasingly limited.

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7. Protection of U.S. Intellectual Property

Yugoslavia is a signatory to the Berne Copyright, Paris Industrial Property, and Universal Copyright Conventions and is a member of the World Intellectual Property Organization.

A substantially amended patent law is nearly completing Parliamentary procedure and may be adopted by December 1989. For several years, Yugoslav authorities have assured the United States that patent reforms would soon occur, only to have domestic opponents abort the process annually. Prime Minister Markovic has expressed to senior U.S. officials his personal confidence that patent amendments will receive Parliamentary approval in the current legislative session. Progress may have been encouraged by Yugoslavia's inclusion on the 1989 U.S. Government "watch list" of countries with inadequate intellectual property protection, established under Special 301 provisions of the 1988 Omnibus Trade and Competitiveness Act. The major changes would extend patent protection from a 7-year renewable term to a 20-year term, introduce product protection in addition to process protection, and eliminate compulsory licensing.

In June 1989, Yugoslavia signed the new multilateral Semiconductor Chip Protection Agreement, an agreement which the United States declines to sign because its standards are perceived as too weak. Ratification procedures are expected to be completed soon.

Yugoslav shortcomings in the intellectual property rights field include a failure to enforce copyright laws to curtail book, video and audio pirating. Pirated videos and records have limited sales on the domestic market due to poor quality. Yugoslav expertise in computer software programs is inadequate to induce officials to develop standards adequately protecting software in the copyright law. Presently, patent officials "interpret" the patent law conditionally protecting software, but this occurs without uniformity.

U.S. companies are also concerned about the Drug Marketing Law which mandates trademark transfer to Yugoslav firms. U.S. firms cite Yugoslav shortcomings in intellectual property legislation and enforcement as disincentives to introducing American products or new investment. General illiquidity among film companies and distributors, in part from declining cinema attendance and revenues in the present inflationary climate, has led to a decline in 1989 imports of foreign films. This factor makes it difficult, if not impossible, to develop a defensible estimate of the value of foregone U.S. earnings attributable to video piracy.

8. Worker Rights *

a. The Right of Association

Federal law has made no explicit provision for free formation of trade unions. Trade unions are organized officially at the federal level and geographically by republic and province. Workers are not required to join the official trade unions, but virtually all workers in the socially-owned sector of the economy do join. Trade unions for all practical purposes are absent from the private sector.

Yugoslav workers are guaranteed the right to strike by an amendment to the Yugoslav Constitution, passed in November 1988. To date, no federal legislation regulates strikes, although a strike law may be soon be passed. Workers in essential public services are conditionally restricted from carrying out strikes or work stoppages.

b. The Right to Organize and Bargain Collectively

Collective bargaining as such does not exist in the self-management system, in which the workers' council is the basic management body in the business organization. The new Law on Labor Relations mandates the use of "collective agreements" between the unions and Chambers of the Economy (semi-official chambers of commerce). Yugoslavia has no economic incentive zones.

c. Prohibition of Forced or Compulsory Labor

Compulsory and "forced" labor is barred by the Constitution.

d. Minimum Age for the Employment of Children

Regulatory standards apply to restrict child labor (the minimum age is 16).

e. Acceptable Conditions of Work

Extensive regulatory standards exist to protect health and safety, set maximum hours and rest periods in certain fields, and provide for a minimum "guaranteed" income. Standards are appropriately adapted to differing sectors. Enforcement, of health and safety provisions is uneven.

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f. Rights in Sectors with U.S. Investment

Most worker rights conditions in sectors in which U.S. capital is invested do not differ appreciably from those in other sectors of the economy. The significant exception is that, in practice, foreign investors have been able to negotiate employment contracts outside the self-management and trade union system, giving foreign or joint venture firms greater discretion to discharge or discipline employees. On balance, however, employees have gained better incomes and other benefits.

There is U.S. investment exposure in the following sectors: petroleum, food and related products, chemicals and related products, machinery, electric and electronic equipment, transportation equipment, other manufacturing, tourism, and restaurant service.

By the end of 1988, available data showed that U.S. investors were involved in 17 joint ventures with a total investment value of about $120 million. By October 1989, 15 new American investment projects were registered, bringing an additional capital inflow of $21 million. These include seven involving a 50 percent or greater share of ownership, and one solely U.S.-owned.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-1
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Yugoslavia country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

ALGERIA

Key Economic Indicators

(billions of Algerian dinars (AD) unless otherwise noted)

Income, Production, and Employment	1987	1988	1989 (est)
Real GDP (1980 prices)	206.0	202.5	207.5
Real GDP growth rate (pct chg)	0.8	- 1.8	2.5
GDP by sector (1980 prices)			
Petroleum	31.6	2.5	31.0
Other mining	3.2	3.2	3.2
Manufacturing	23.7	25.0	25.0
Agriculture	23.9	19.0	21.0
Construction	28.1	28.3	28.0
Services	78.0	80.0	81.0
Import taxes and duties	17.5	18.5	18.3
Real per capita income (1980 prices 000 dinars)	8,880	8,470	8,430
Labor force (millions)	4.8	5.0	5.2
Unemployment rate (pct yrly avg)	18.5	22.0	25.0
Money and Prices			
Money supply (M)	223.9	248.9	n/a
Commercial interest rates (short-term)	5.0	7.0	8.5
Savings rate (pct GDP)	30.4	29.0	29.3
Investment rate (pct GDP)	30.3	30.7	30.3
Consumer price index (pct chg) 1/	7.5	5.9	10.0
Wholesale price index	7.0	9.0	10.0
Exchange Rates			
Official (avg $ value of dinar)	.205	.17	.127
Parallel (est)	.06	.04	.025
Balance of Payments and Trade (mils of $)			
Total exports FOB	8,660	8,200	8,700
Exports to U.S.	2,144	1,972	2,300
Total imports CIF	6,300	6,400	6,900
Imports from U.S.	426.3	733	820
Aid from U.S.	0	1.5	.5
Aid from other countries	20	95	250
External debt	22,800	22,200	23,131
Annual debt service (paid)	5,245	5,867	6,200
Gold and forex reserves	4,341	3,423	3,060
Current account balance	60	- 720	- 500

1/ According to official statistics. The actual inflation rate is somewhat higher since many goods included in the official survey at their officially set prices are only available in the parallel market at higher prices.

ALGERIA

1. General Policy Framework

Algeria has pursued an autarkic development policy since the early 1970s, although it is gradually opening up its economy to greater foreign participation. The economy is characterized by inefficient state monopolies and chronic shortages. Although the Government of Algeria began a liberalization program in late 1987, it retains a preponderant economic role, including a near monopoly on exports and imports. The most important industry is the state-owned hydrocarbon sector, which accounted in 1988 for 97 percent of exports and 32 percent of gross domestic product (GDP). The oil price decline of 1986 sharply reduced Algeria's hard currency earnings, from $13 billion in 1985 to $8 billion in 1988. At the same time, the Government started requiring that all overseas purchases be financed. Financing has become since 1987 the single most important issue in doing business with Algerian purchasers.

The drop in hydrocarbon prices stimulated the Government to implement economic reform, and in early 1988, it broke up state-owned collective farms and gave the land to farmers. In 1989, the Government began granting managerial autonomy to state enterprises, allowing them and the private sector to determine their import needs. The Government has stated its intention to accelerate implementation of economic reforms. Despite austerity, U.S. exports to Algeria have increased over the last few years, primarily because of the explosive growth in sales of agricultural commodities financed by U.S. Department of Agriculture guaranteed credits. Agricultural product sales have grown from about $200 million in fiscal year (FY) 1986 to nearly $600 million in FY1989, reflecting both Algeria's great reliance on agricultural imports and its current need for concessional financing. Moreover, the political rapprochement between the United States and Algeria following President Bendjedid's 1985 visit to the United States has helped to promote U.S. exports; the contract signed in late 1988 for the sale of three Boeing 767s to Air Algerie is one example.

Algerian private enterprise remains crippled by difficult access to bank credits and especially foreign currency. Further, a punitive tax structure forces most private operators into black market transactions and takes away profit incentive from state enterprise managers. However, the private sector's role in construction and services, particularly tourism, is expanding.

2. Exchange Rate Policies

The dinar is a non-transferable currency, officially valued at four to five times the parallel rate. The Central Bank states that the value of the dinar is set against an undisclosed basket of foreign currencies. Since September 1987, the Central Bank has allowed the official rate to slide approximately 60 percent against the dollar. Given the significant overvaluation of the dinar, few observers expect that its slide will promote non-hydrocarbon exports. However, the devaluation has saved the Government hard currency, since public and private sector hard currency import budgets are denominated in dinars.

Under the system implemented in 1989, ministries, state enterprises, and the private sector are granted hard currency import budgets annually. Within certain limitations, they can use the foreign exchange as they see fit rather than on a list of items determined in accordance with the Five Year Economic Plan as occurred under the previous foreign exchange allocation system. The private sector's allocation is given to the National Chamber of Commerce, which divides it among individual firms. However, due to balance-of-payments difficulties, these allocations, particularly to the private sector, have been less than announced. The Government offers a multiple exchange rate only for tour operators selling Algerian package tours to foreigners. They are granted a 40 percent exchange premium.

3. Structural Policies

The Government controls all major purchasing decisions through its near-monopoly on imports. The Government often makes purchases on a political basis, in keeping with Algeria's general goals of diversification of supply and balanced trade. Purchases are linked to national priorities, expressed most broadly in the five year plan (one for 1990-1994 is to be adopted shortly). Past five year plans have emphasized the development of small enterprises, agriculture, and the petroleum sectors, and have limited imports of consumer goods. Under the current system, a state enterprise which wants to use its foreign exchange allocation to make a major overseas purchase must process the paperwork through its bank and receive approval from its Ministry. The financing package for these purchases must be approved by the Ministry of Economy, the Central Bank, and by the Cabinet for purchases that are particularly large or deemed to be strategic.

Despite having given the public and private sections greater latitude in determining their import needs, the Algerian Government does not allow the import of products which compete with national production except in limited cases. In addition, imports for which state corporations have monopoly rights can not be imported by other state corporations or the private sector. Currently, about 70 percent of total imports are imported through such monopolies. However, in the manufacturing sector, the Government is encouraging competition and allowing state-owned and private firms to import machinery and other equipment to enable them to compete directly with other state-owned firms. The Government has pledged to continue liberalizing the import regime and to reduce the percentage of total imports handled by state enterprises on a monopoly basis. Hard currency availability and financing terms remain by far the most important constraints on purchases, outweighing such items as pricing and tax policies.

In the current balance-of-payments crunch, countertrade, especially in the largest deals, is very important to the Government. For example, Boeing sold its aircraft in return for liquid natural gas. Regulatory constraints on U.S. exports have been most obvious in the area of livestock sales, where the retention of strict French veterinary regulations has effectively blocked sales of U.S. dairy cattle. However, these types of constraints have not impeded most U.S. exports.

4. Debt Management Policies

Algerian government officials are proud of the country's perfect debt repayment record and have expressed their commitment to continue paying Algerian debts on time. However, Algeria's debt burden has become progressively heavier during the past three years, owing to lower oil prices and dollar weakness. The external debt now stands at $23.1 billion, of which $19.5 billion is public and publicly guaranteed medium- and long-term debt and the remainder is short-term debt. Repayment for 1989 is projected to total $6.2 billion, of which $4.2 billion is principal. Debt service for 1989 will be about 65 percent of export earnings, up from around 60 percent last year.

Algerian banks expect to raise nearly $3.7 billion in private financing this year, only $600 million from commercial banks with the remainder being supplier credits. Many overseas banks have reached internal limits on lending to Algeria and are concerned about the future direction of oil prices. Few U.S. banks are now active in the market. To enable Algeria to maintain its reputation as a good LDC debtor, government officials have stated that Algeria would be very selective in taking on new debt, thus relying more heavily on official financing at concessional terms and on countertrade than on private lending.

The World Bank has become increasingly active and expects to disburse $500 million in 1989. The IMF approved in May 1989 a one-year standby agreement and support under the compensatory and contingency financing facility, both of which will provide Algeria with almost $600 million in new funds. The implications of Algeria's debt burden for U.S. trade are great. Competitive financing is now essential for sales to Algeria. The Export-Import Bank and the Commodity Credit Corporation have guaranteed or financed the bulk of U.S. sales to Algeria. Extensive French, Italian, British, Belgian, etc. supplier credits compensate for shortages of competitive financing.

5. Significant Barriers to U.S. Exports and Investment

Algeria employs a great variety of trade barriers, which are designed to protect local industry. Accordingly, they discriminate against all foreign suppliers, not just those from the United States. In a move to conserve hard currency, the Government has increasingly sought to grant civil works projects to local companies. This has meant that local companies have won projects for which they do not have technical expertise. For example, a U.S. company lost a major pipeline enrichment project in 1988 to a local company--only to find itself hired as a consultant by that same company. However, in those cases where foreign companies are awarded contracts for civil works projects, they are obliged to hire local construction companies and are responsible for ensuring that their performance meets the contracted standards. This requirement handicaps or discourages foreign firms, including those from the U.S., from bidding on this type of contract since local firms' performance often falls short of contract requirements and the foreign firms are therefore responsible for remedying these shortfalls at their own expense and/or paying penalties for the resulting delays.

Financial services are reserved for state enterprises; three French banks have recently become the first foreign banks to establish representative offices under existing commercial legislation. This legislation only authorizes the banks to carry out public relations activities. No foreign insurance companies operate in Algeria. A law which acts as a barrier to U.S. exports is the Anti-Intermediary Law. Although modified in 1989 to allow trading companies to represent foreign firms, this Law prohibits individuals such as agents or distributors from acting in the same capacity. While a welcome improvement, the modified Law still inhibits smaller U.S. firms from conducting business in Algeria.

Algerian contracting standards are moving away from those inherited from the French at independence and are increasingly negotiated on a case-by-case basis with foreign suppliers. However, they have posed problems for U.S. suppliers in two areas: cattle and wood. In the case of cattle, the Algerian health specifications that relate to blue tongue and interbronchial rhinitis (I.B.R.) are specified in a manner that U.S. exporters have not been able to meet. Wood specifications have been drawn up with metric measures; U.S. suppliers have had some recent success in convincing Algerian buyers of the equivalence of U.S. standards. Apart from these two cases, the standard Algerian contract clause that has been the most onerous for U.S. suppliers is the one that assigns responsibility to the supplier (without compensation) for maintaining equipment purchased by Algerian firms.

Algeria did little to encourage foreign investment until the Joint Venture Law of 1986, which most potential investors have found to be overly restrictive. The Algerian partner must be a state enterprise (with the exception of tourism projects) and must own at least 51 percent of the joint venture company. The joint venture must be authorized by the Government, which evaluates projects according to their potential to increase non-hydrocarbon exports and provide technology transfer. Foreign companies cannot own land or hold mineral rights. Moreover there is no guarantee of Central Bank authorization for repatriation of funds. Several U.S. companies have investigated setting up operations under the law, although none has done so yet.

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The Algerian Government is moving to revise its approach to domestic private and foreign investment. In December 1987, it became a member of the International Finance Corporation, a World Bank body that promotes private investment. Furthermore, some progress was made in 1988 when non-hydrocarbon foreign companies' right to international arbitration was recognized. In June 1989, the Government submitted a revised law on joint ventures to the National Assembly. Although still requiring that foreign firms establish joint ventures with public Algerian firms (except in tourism), the draft law, as submitted by the Government, lowered the minimum required Algerian share to 35 percent. It also simplified the Algerian Government's approval process over that contained in the 1986 Law without changing the export promotion and technology transfer criteria used to judge joint venture proposals. Under the draft law, the joint venture would be allowed to repatriate distributed profits and to submit disputes to international arbitration. The National Assembly is expected to vote on the law before the end of the year.

Foreign investment in the oil and gas sector falls under the Hydrocarbons Exploration Law of 1986. The Law provides that foreign companies can be reimbursed with up to 49 percent of newly discovered oil production but does not allow them to own mineral rights or provide for international arbitration. One U.S. oil company recently signed a contract with Sonatrach, the state-owned oil firm, to explore for oil, joining three other non-U.S. firms operating under the terms of the 1986 Law.

6. Export Subsidies Policies

Since 1986 the Government has placed increased importance on non-hydrocarbon exports. It has done so in an ad hoc manner, reflecting the fledgling condition of the sector. In a late 1987 deal to repay Soviet military debt with approximately several hundred million dollars worth of Algerian manufactured goods, Algeria undertook to provide free shipping. According to the World Bank, the National Railway Company provides transport for phosphates--almost all of it exported at 25 percent of operating costs. Furthermore, the Government has given preferential access to finance for private and state companies seeking to make export-related investments. However, these companies can only keep 10 percent of their hard currency earnings.

7. Protection of U.S. Intellectual Property

Algeria is a party to the Universal Copyright and the Paris Industrial Property Protection Conventions.

The Government's record of respect for intellectual property rights is good. Generally, Algerian practice is to obtain authorization and pay royalties for proprietary technology. Copying of patented technologies is generally beyond Algeria's present technical capability. As for trademarks, most major international brands are unavailable locally. However, Adidas shoes, Marlboro and Winston cigarettes, Coca-Cola, and several French products are made under license.

8. Worker Rights *

a. The Right of Association

From independence until 1989, workers did not have the right to form autonomous labor unions. Since 1962, the right to organize and represent workers had been the prerogative of the General Union of Algerian Workers (UGTA), a mass organization linked to the ruling party. However, in late 1989, the Algerian Journalists' Movement declared with apparent government approval its intention to form an independent professional union. The UGTA's authority has also been challenged by factory-level activists seeking to establish independent unions.

As revised in 1989, the Constitution recognizes the right to strike but stipulates that it must be exercised within the framework of the law. Previous legislation prohibits strikes in the public sector and the Government has not yet introduced legislation to supercede that law. Nevertheless, spontaneous strikes occurred frequently during 1989, as workers demanded higher salaries and increased benefits or protested objectionable management practices.

b. The Right to Organize and Bargain Collectively

Pending the adoption of new legislation to implement constitutional revisions, the July 1988 Labor Law remains technically in effect. That Law maintains the UGTA's status as the sole authorized workers' representative, while providing for full representation of workers' interests and unrestricted organizing under UGTA auspices, collective bargaining, access to the work place, unrestricted issuance of union publications, and time off for official union activities. Anti-union discrimination is illegal and unions are granted the right to initiate collective and individual court cases against employers. Labor laws, to the extent that they are enforced, are applied uniformly throughout the country. There are no export processing zones in Algeria.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor by law and there is none.

d. Minimum Age for Employment of Children

The minimum employment age is 18, which is enforced in the state sector, the country's largest employment sector. It is unregulated in the small private sector, but violations are not widespread. With continuing economic hardship, however, more children work informally, such as in street vending.

e. Acceptable Conditions of Work

Algeria has a 44-hour work week and strict occupational and health regulations. The legal minimum wage is approximately $190 per month at the official exchange rate.

f. Rights in Sectors with U.S. Investment

U.S. investment in Algeria is limited to two small manufacturing investments, both minority participants in joint ventures in the petroleum sector. In addition, a U.S. petroleum firm has just entered into a joint venture with the state-owned Algerian oil company to explore for oil. The two existing U.S. investments appear to adhere to legislated worker rights practices.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		14
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		14
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Algeria country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

BANGLADESH

Key Economic Indicators

(Millions of U.S. dollars ($) unless otherwise noted)

	1/ FY86/87	1987/88	FY88/89 (est)
Income, Production, and Employment			
Current GDP	17,597	19,327	20,645
Real GDP growth (pct)	4.0	1.8	2.1
GDP by sector			
Agriculture	8,324	8,884	n/a
Manufacturing	2,376	2,632	n/a
Services	6,898	7,809	n/a
Current GDP/capita ($) 2/	169.0	180.0	192.8
Labor force (mils)	32.5	33.3	34.1
Unemployment rate (pct)	n/a	n/a	n/a
Money and Prices			
Money supply (M2)	4,525	5,249	5,912
Refinance rate (pct)	10.75	10.75	10.75
Savings/GDP (pct)	3.4	3.0	2.4
Investment/GDP (pct)	12.4	12.0	11.4
CPI (pct growth)	10.4	11.4	8.0
WPI (pct growth)	n/a	n/a	n/a
Exchange rate (avg)	30.64	31.26	32.27
Balance of Payments and Trade			
Total exports FOB	1,074	1,231	1,300
Exports to U.S.	342	385	325
Total imports CIF	-2,620	-2,987	-3,150
Imports from U.S.	- 172	- 261	- 190
Aid from U.S.	172.2	132.4	167.0
Aid from others	1,595	1,641	1,581
External public debt	7,867	9,709	10,331
Debt service	567	456	494
Foreign reserves	752	896	993
Balance of payments	257	144	107

1/ The Bangladesh fiscal year is July 1 - June 30.

2/ Rising current per capita income over the period 1986-1989 is largely a result of inflation and a relatively stable taka/dollar exchange rate.

For purposes of conversion, the average exchange rates used are: 1986/87 - $1.00 equals 30.64 taka; 1987/88 - $1.00 equals 31.26 taka; 1988/89 - $1.00 equals 32.27 taka.

Available World Bank, IMF, and Bangladesh bank statistics have been consulted and inconsistencies in the data resolved insofar as possible.

BANGLADESH

1. General Policy Framework

Bangladesh is a densely populated country situated on a low-lying deltaic plain with little topographic or climatic variation. Its overwhelmingly agricultural economy depends heavily on a semi-tropical monsoon climate. Bangladesh suffers all too frequently from natural disasters such as floods and cyclones. The Government wrestles with these disasters and urgent problems of development in one of the poorest countries in the world. A major policy objective--feeding the rapidly growing population--results in significant U.S. grain exports to Bangladesh under PL-480 programs and commercial sales.

Since coming to power in 1982, the Government of President Ershad has been committed to expanding the role of the private sector, introducing market-oriented reforms and encouraging foreign investment. The new industrial policy of 1982, the revised industrial policy of 1986, and the Board of Investment Ordinance of 1989 (designed to speed the investment approval process and attract foreign investors) represent the current Government's three major policy initiatives in the areas of privatization and investment. Nevertheless, Bangladesh's limited resources, small domestic market, poor infrastructure development, and uncertain political and legal environments continue to impede the Government's efforts.

In an effort to deal with mounting macroeconomic imbalances, the Government adopted a stabilization program in 1985/86, supported by a standby arrangement from the International Monetary Fund (IMF), which was followed in 1987 by a three-year arrangement under the Structural Adjustment Facility (SAF). The adjustment strategy has focused on industrial and trade liberalization, domestic resources mobilization, and financial sector reform. The three-year SAF will expire in February 1990; negotiations with the IMF for an enhanced structural adjustment facility are ongoing. Bangladesh remains highly dependent on foreign concessional and grant aid. Foreign aid inflows in 1988/89 exceeded annual development plan expenditures and in effect financed the entire Bangladesh government deficit. One great constraint is inefficiency in tax collection, particularly of income taxes.

2. Exchange Rate Policies

Since August 13, 1979, the taka has been pegged within margins to a basket of six currencies in which the dollar and pound sterling predominate. The dollar plays the role of intervention currency. There also exists a significant secondary exchange market (SEM) -- also known as the wage earners scheme (WES) -- where foreign exchange can be obtained for the import of selected goods. Bangladesh Bank, the nation's central banker, adjusts the secondary exchange market rate to attract renewed inflows of foreign exchange remittances from Bangladeshis working abroad. Virtually all exports and almost all non-aid financed imports are now transacted through the secondary market. The SEM rate now exceeds the pegged official rate by about two percent. The Government has narrowed the gap between the rates in recent years at the urging of the IMF. However, the SEM rate has not been adjusted in several years.

The IMF is reportedly concerned that the taka has recently become overvalued. The Government last devalued the taka, currently set at 32.27 to the dollar, in November 1988. Since that time the dollar has appreciated significantly against other currencies, causing the taka to appreciate as well. Citing the fall in exports during the third quarter of FY88/89 and a sharp decrease in reserves, the IMF reportedly recommended in May 1989 that the Government adjust the exchange rate downward. The recent real appreciation in the value of the taka against other currencies does not affect the U.S. trade balance with Bangladesh, since the taka/dollar exchange rate has remained constant.

3. Structural Policies

Revenue shortfalls in recent years (particularly in FY88/89 when flooding reduced Bangladesh's revenues and sharply increased expenditures) spurred the Bangladesh Government to boost taxes significantly for FY89/90. An additional seven billion taka (about $224 million) in new taxes and other fiscal measures were included in the FY89/90 budget, representing an increase of a little more than 10 percent in total government revenues. Bangladesh's dependence upon customs duties and excise taxes for one half of its total revenue discourages imports and business activity in general. Tax incentives for new firms locating in Bangladesh, including tax holidays, also favor domestic production over imports.

Negotiations between the IBRD and the Bangladesh Government are under way to reform Bangladesh's financial sector. The reforms are included under the financial sector credit (FSC) financed by the World Bank, which may be finalized by mid-year 1990. The reforms will permit banks to set interest rates within a narrow band (at present interest rates are set by the Ministry of Finance) and decide their own lending policies; government subsidies encouraging banks to lend to priority sectors will be cut back. The financial sector reforms, if carried out, will improve credit allocation in Bangladesh and may result in increased new industrial investment. (Current banking regulations discourage bank loans for investment in plant and equipment, instead favoring loans to finance trading operations.) While some U.S. capital equipment manufacturers may benefit from any resulting increase in industrial investment, many Bangladesh firms prefer used, reconditioned, low-technology equipment which can be obtained cheaply from Korea, Singapore, Taiwan, and Thailand.

In January 1989, President Ershad inaugurated a high-powered Board of Investment designed to cut back red tape and speed the investment approval process. Nearly all new investments and expansions of plant capacity involving foreign investors must receive approval from the Board. The new Board has the authority to issue most of the approvals required to set up new investments in Bangladesh, including foreign exchange allocation approvals, telephone hookup approvals and other approvals. It is too early to judge the effectiveness of the Board. A U.S.-Bangladesh Bilateral Investment Treaty entered into force in July 1989. The Treaty guarantees investors national treatment and provides an arbitration procedure for the settlement of disputes.

4. Debt Management Policies

Bangladesh carried an estimated $10.3 billion dollar foreign debt at the end of FY1988/89, up 14.6 percent compared with FY1987/88. Bangladesh's foreign debt is approximately one-half of its GDP. Debt service payments in FY 1988/89 consumed about 24 percent of merchandise export receipts and remittances from overseas. From 1982 to June 1989, Bangladesh's external debt rose by about 160 percent; during the same period, however, Bangladesh's exports increased by over 100 percent.

Although the debt position appears to be under control for the present, the nation's debt servicing obligations may become more onerous over the next five years. After independence in 1971, Bangladesh began to receive international assistance, much of it in low interest loans with 10- to 15-year grace periods. Although firm data are not available, many of these early concessional credits may come due in the next several years, considerably increasing the country's debt service.

5. Significant Barriers to U.S. Exports and Investment

The Ershad Government is continuing to liberalize the import regime by relaxing quantitative restrictions, simplifying import procedures, rationalizing tariffs, and transferring additional import financing into the secondary exchange market. The Bangladesh Government is moving to establish three general tariff categories -- 0 to 20 percent for raw materials, 30 percent for intermediate goods, and 50 or 100 percent for final goods. Nonetheless, effective tariff levels remain high as Bangladesh continues to raise relatively high shares of its government revenue from customs duties. Bangladesh is a member of the General Agreement on Tariffs and Trade and is a participant in the ongoing Uruguay Round.

Over the last three years, Bangladesh has negotiated countertrade arrangements with Bulgaria, Egypt, Hungary, Nepal, Pakistan, Singapore, Switzerland, and the Soviet Union. Significantly for U.S. grain trade opportunities, Bangladesh's countertrade arrangements with Hungary and Bulgaria in FY88/89 accounted for almost 20 percent of Bangladesh's two million metric tons in wheat imports.

The Government has moved to ease barriers to foreign investment, a fact underscored by the recently-created Board of Investment and by the U.S.-Bangladesh Bilateral Investment

Treaty. In principle, Bangladesh accords national treatment to foreign investors doing business in Bangladesh; in practice, however, the Government favors investments which promote national goals. Investments which meet objectives such as rural development, import substitution, and employment and export generation are encouraged with tax incentives, including tax holidays, and are granted relatively quick investment approvals. Approval requests for investments not meeting the above criteria can be in processing for years.

One sector where the Bangladesh Government has not accorded foreign investors national treatment is pharmaceuticals. The 1982 Drug Control Ordinance restricts the production of some over-the-counter medications to firms without foreign participation. A June 21, 1989 decision by the Bangladesh Government to reduce the number of drugs permitted for manufacture and sale in Bangladesh to 302 chemical combinations appears to affect multinational pharmaceutical companies disproportionately, although technically it does not discriminate against foreign firms.

6. Export Subsidies

The Bangladesh Government has taken a number of steps to encourage export growth including ensuring duty free status for some imported inputs and providing easy access to financing for exporters. In addition, the export performance benefit entitlement, a government scheme which allows exporters to sell foreign exchange earnings in the secondary market, has now been extended to all export products except raw jute and unprocessed leather. The export promotion bonus, however, is based on the percentage gap between the exchange rate prevailing in the secondary exchange market and the official rate. Business leaders have complained that as the gap between the two rates has narrowed to about 2 percent, the export promotion bonus has been reduced significantly.

Exports of Bangladesh jute goods have slumped in recent years due to erratic supply and increased competition from synthetics. On May 1, 1989 the Government announced a rescue package for the jute industry including government export subsidies ranging from 10 to 20 percent for jute products and a three-year moratorium on repayments of certain bank loans to jute mills, with the Government picking up the interest payments for three years. The package also provides for a phase-out of subsidies leading to closure of public sector mills that fail to meet productivity norms and reduction of subsidies to private sector firms which do not meet efficiency criteria. These measures marginally increase competitiveness of jute products vis-a-vis synthetic products.

Bangladesh has one export processing zone (EPZ), established in 1983 and located within the city limits of Bangladesh's second largest urban center and principal seaport, Chittagong. The Government plans to set up additional EPZs near Dhaka, near Sawar, by early 1989, and later in the second major port city of Khulna. There are currently 23 industries operating in the Chittagong EPZ, including four U.S. firms, benefiting from duty free imports of capital goods and raw materials and duty free exports. The volume and value are only a small fraction of present-day total exports.

7. Protection of U.S. Intellectual Property

Bangladesh has been a member of the World Intellectual Property Organization since 1985 and is represented on two of its permanent committees.

Bangladesh intellectual property law dates from the colonial era and has many similarities with the current British system. The Patent and Design Act of 1911, as amended by the Patent and Design Rule of 1933, the Trademark Act of 1940, and the Copyright Ordinance of 1962 govern patent, trademark, and copyright law in Bangladesh.

The Bangladesh Government is considering acceding to the Paris Convention for the Protection of Industrial Property, believing accession may help it attract foreign investment. However, the Bangladesh Government has not given intellectual property issues a high priority. Laws are enforced with varying effectiveness. Intellectual property infringement in the domestic market is common, but it is of very small significance for U.S. firms, with the possible exception of pharmaceutical products and audio and video cassettes.

8. Worker Rights *

a. The Right of Association

The Constitution guarantees the right of association subject to restrictions imposed by law. Workers in trade associations or unions may draw up their own constitution and rules, elect officers, develop programs, and conduct business without government interference. The right to strike is not recognized by law but is an accepted form of protest and numerous strikes occurred in 1989. The Essential Services Ordinance of 1958 permits the Government to bar strikes for three months in any sector deemed "essential."

b. Right to Organize and Bargain Collectively

The Constitution provides for the right to form labor unions subject to governmental approval. Public sector employees cannot form unions or bargain collectively. Except in the Chittagong Export Processing Zone, where union activity has been suspended since 1985, unions in the private sector can generally bargain collectively without government interference. However, laws against antiunion discrimination are often violated, and workers are frequently fired from their jobs for union activities. Antiunion discrimination is especially prevalent in the garment industry, where the work force is predominantly female.

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c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor. Although this prohibition is substantially respected, bonded labor has been reported on some tea and rubber plantations. The Government actively seeks to prevent the trafficking of bonded laborers into other South Asian countries.

d. Minimum Age for Employment of Children

The Employment of Children Act prohibits offering employment to any person under 14, but the Act is not enforced. Sanctioned by tradition and encouraged by dire economic necessity, child labor is a serious problem. Legal minimum ages for various types of employment, which range from 12 to 17, are seldom enforced and children are regularly engaged in all available jobs. There is no compulsory education. The Bureau of Labor Statistics estimated the number of child laborers at approximately 3 million in 1986.

e. Acceptable Conditions of Work

Regulations regarding minimum wages, hours of work, and occupational safety and health are not strictly enforced. Income averages $1.00 to $2.00 per day. The Factories Act of 1965 and the Shops and Establishments Act of 1965 limit normal working hours to a maximum of 8 hours per day and 48 hours per week (with overtime, not more than 60 hours per week.)

f. Sectors with U.S. Investment

U.S. investment in Bangladesh is very small, totalling approximately $50 million. It is concentrated in the physical assets of one life insurance company, the American Express and Citibank offices and manufacturing operations (three pharmaceutical firms and several firms in the food and garment/textile sectors).

All the major manufacturing firms with U.S. investment have unions and bargain collectively. Worker layoffs or the threat of reductions-in-force can cause serious management-labor disputes. As far as can be determined, firms with U.S. capital investment abide by the labor laws and the provisions of the 31 ILO Conventions ratified by Bangladesh.

Similarly, these firms respect the minimum age for the employment of children. According to both the Bangladesh Government and representatives of the firms, workers in firms with U.S. capital investment generally earn a much higher salary than the minimum wage set for each specific industry. In some cases, workers in these firms enjoy shorter working hours than those worked in comparable indigenous firms.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Bangladesh country report included in the Department of State's _Country Reports on Human Rights Practices for 1989_, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

EGYPT

Key Economic Indicators

(Millions of Egyptian pounds (LE) unless otherwise noted)

	1986/87	1987/88	1988/89
Income, Production, and Employment			
GDP factor cost (1986-87 prices)	40884.7	43068.8	n/a
Real GDP growth rate (pct)	4.2	5.3	n/a
GDP by sector			
Production	19822.8	20880.8	n/a
Agriculture/irrigation	8640.0	8903.0	n/a
Industry/mining	6933.1	7453.1	n/a
Petroleum and its products	1742.7	1850.0	n/a
Electricity	518.4	557.3	n/a
Construction	1988.6	2117.4	n/a
Productive services	13800.8	14474.7	n/a
Transportation/storage/ communications/Suez Canal	3755.5	3977.1	n/a
Trade/finance/insurance	9646.3	10046.3	n/a
Tourism	399.0	451.3	n/a
Social services	7261.1	7713.3	n/a
Housing/public utilities	820.0	898.0	n/a
Social and personal services	1841.8	1921.6	n/a
Govt services and insurance	4599.3	4893.7	n/a
Population (millions)	n/a	49.8	51.2
Per capita GDP (LE)	n/a	864.8	n/a
Size of labor force (millions)	12.2	12.5	n/a
Unemployment (millions)	n/a	n/a	n/a
Money and Price			
Money supply (Ml)	16592.0	19575.0	21827.0
Bank lending interest rates (pct)	11-18	11-18	13-19
Savings rate	n/a	n/a	n/a
Fixed investment (1986/87 prices)			
Factor cost	7700.0	8300.0	n/a
as pct of GDP	18.8	19.3	n/a
Consumer price index (pct)	25.1	10.1	16.6
Wholesale price index (pct)	11.6	25.8	25.2
Exchange rates ($/LE)			
Central bank rate	1.43	1.43	1.43
Commercial bank rate	.068	0.43	0.39
Parallel market rate	0.46	0.41	0.34
Balance of Payments and Trade (mils $)			
Total exports	2264.4	3274.0	2545.9
Exports to U.S.	498.3	221.3	n/a
Total imports	7952.3	9841.0	10078.9
Imports from U.S.	2210.3	2339.7	n/a
Aid from U.S. (U.S. FY)	2506.0	2374.0	2600.0
Aid from other countries	n/a	n/a	n/a
External public debt	40400.0	43100.0	n/a
Debt service paid	2534.8	1593.8	n/a
Reserves (including gold)	1807.0	1085.0	n/a
Current account balance	-924.3	-544.6	2126.0

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1. General Economic Policies

The Egyptian economy is mixed. Major sectors of the economy such as industry, banking, construction, and insurance were nationalized during the 1950s and 1960s. Although it remained under private ownership, the agricultural sector was subjected to comprehensive marketing and pricing controls. The Government in the 1970s found that this system was generating insufficient economic growth and began to relax some of the government controls and reopen various sectors of the economy for private sector investment (although at the same time it increased subsidies). The Government has continued this process of liberalization through the 1980s. It has at the same time remained concerned about the social consequences of economic liberalization and has been cautious in moving to dismantle the basic framework of government controls and subsidies. This has left potential investors still uncertain about their ability to operate successfully. As a result, private investment has expanded slowly, exports have remained stagnant, and the economy has struggled to maintain growth to match that of the population. Dependence on imports has increased.

The Government continues to favor import substitution as a central element of its economic development program. This policy has relieved Egypt of its previous heavy dependence on imports of certain key industrial products such as steel and aluminum, but has fallen far short of eliminating the demand for imports. The Government's system of agricultural price controls had the perverse effect of discouraging domestic production of agricultural commodities and hence exacerbating the demand for imports of such commodities.

Egyptian Government fiscal and monetary policies have in recent years been highly stimulative--large government budget deficits and rapid expansion of the money supply. By increasing aggregate demand, such policies have stimulated imports, although the impact on imports has been limited by foreign-exchange shortages.

Egypt today is relatively open to imports, which amount to approximately 20 percent of gross domestic product (65 percent of food needs and 92 percent of its red meat). Egypt in 1988-89 imported approximately four times what it exported. Major categories of imports include food (Egypt is one of the world's largest importers of wheat), other consumer goods, all kinds of industrial goods, and many raw materials and intermediate products. Following a comprehensive customs reform in mid-1986, import formalities are for most products straightforward. There is an import ban list comprising about two hundred products, primarily luxury foods and other goods produced locally such as automobiles. In early 1989, the Egyptian Central Bank imposed a ban on bank issuance of import letters of credit for a list of 65 additional commodities as a means of relieving the large balance-of-payments deficit. The strongest constraint on imports today is availability of foreign exchange, not demand.

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U.S. exports to Egypt are healthy--they amounted to $2,339.7 in 1988 (of which we estimate about $650 million are straight commercial transactions, the remainder financed by U.S. aid and commodity export credits to Egypt). Consistent with the close political relationship between the United States and Egypt, U.S. products are welcomed by Egypt and the United States is the largest source of imports. Impediments to U.S. exports to Egypt are generally associated more with market forces--physical distance and high freight costs, currency valuations, lack of strong U.S.-exporter interest in the Egyptian market, etc.--than with government policy.

2. Exchange Rate Policies

By encouraging inefficient allocation of resources, Egyptian government economic policies have both discouraged exports and encouraged imports, thereby weakening the exchange rate for the Egyptian pound. Inflationary macroeconomic policies have also weakened the pound. The Government has at the same time sought to slow depreciation by maintaining extensive controls on access to foreign exchange and on the rates at which it can be acquired. It maintains a multi-tiered exchange rate system for the Egyptian pound (LE) pegged to the U.S. dollar. Since May 1987 the principal exchange rate has been that employed by commercial banks for purchase of foreign exchange from private sources and resale only for imports and to local subsidiaries of foreign companies for remittances. It is fixed daily by an interbank committee in consideration of a variety of market factors. At end-October 1989, the commercial bank rate was about LE 2.58/$1.00. It has been devalued at a rate of only about seven percent per year vis-a-vis the dollar over the past two and one-half years, substantially less than the difference in rates of inflation between Egypt and the United States.

The Government maintains an artificial "Central Bank rate" applicable to certain key government-controlled exchange flows (petroleum and cotton exports and Suez Canal revenues, imports of "strategic" food commodities resold by the Government at subsidized prices, service of the Egyptian Government's external debt). This rate was devalued (for the first time in a decade) from LE 0.70/$1.00 to LE 1.10/$1.00 in August 1989. Use of this rate permits the Government to conceal a large part of the subsidy that it provides to consumers of the strategic commodities. Application of this rate to foreign oil companies operating in Egypt has the effect of inflating dramatically the foreign exchange cost to them of their expenses in Egyptian pounds.

Since the Government prohibits purchase of foreign exchange by Egyptians from banks for other than the purposes mentioned above, there is in Egypt a "parallel" market catering to demand not served by the banking system. The exchange rate in this market appears to respond primarily to market forces but also to periodic crackdowns by the police. At end-October 1989, it was in the range of LE2.78/$1.00. The primary effect of the maintenance of overvalued exchange rates is to subsidize imports and disadvantage exports. U.S exports to Egypt, along with those of other countries, are rendered more competitive with locally-produced commodities.

3. Structural Policies

Although there is underway a continuing process of deregulation, many segments of the Egyptian economy remain subject to government controls over some combination of the products to be produced, the prices to be paid for inputs, the price at which output is to be sold, hiring and termination of workers, how much and at what price to export. One effect of these controls has been to depress private sector economic activity and thus, indirectly, demand for imports. On the other hand, the dampening effect of the controls on domestic investment and production has probably also resulted in greater demand for imports.

The broad range of public sector companies generally are required to be responsive to social considerations and hence often behave in ways other than those suggested by market forces. Many of them receive inputs at subsidized prices and sell their products at less than real cost. Public sector and to some extent private sector enterprises often are accorded protection from import competition. The Government has also used its authority for licensing private investment to restrict domestic competition for public sector enterprises, but is growing more tolerant in this area.

Egypt since 1974 has offered a variety of incentives, including tax holidays, and guarantees for private direct investment in Egypt, particularly in enterprises that will serve priority needs of the Egyptian people. In 1989, the Government amended the legislation under which these incentives and guarantees are provided, ostensibly with the aim of further improving the investment climate. The new legislation is, however, vague in many respects, and its effect on investment will become clear only as it is implemented and interpreted.

4. Debt Management Policies

Egypt, along with many other heavily-indebted developing countries, has in the later 1980s found it very difficult to service the debts that it incurred during the era of heavy petrodollar recycling of the late 1970s-early 1980s. With more than $40 billion in external debt owed mostly to other governments, the Egyptian Government has now accumulated multibillion dollar arrearages. It obtained an estimated $8 billion in debt rescheduling--100 percent of arrearages plus principal and interest due over an 18-month period--from the Paris Club countries in May 1987, based on conclusion of a standby arrangement with the International Monetary Fund (IMF). Even with the rescheduling, however, Egypt found itself unable to satisfy current exchange requirements and continued to accumulate arrearages on non-rescheduled debt.

They have also fallen behind in payments on the rescheduled debt. International financial markets have begun to discount Egyptian Government debt by large percentages.

Rectification of this situation will be extremely difficult. With petroleum prices low, prospects for large increases in foreign exchange earnings look bleak, at least for the short-term. It is increasingly apparent that this problem can only be solved through a combination of renewed lending from donors including the IMF and the World Bank, a series of Paris Club debt reschedulings, and vigorous government efforts to rationalize its spending and improve economic performance. Pending such arrangements, access to external credit and imports, particularly government ones, have been and are likely to continue to be constrained.

5. Significant Barriers to U.S. Exports and Investment

The Egyptian Government maintains an import ban list--and, as of early 1989, a supplementary list of import items for which bank financing is prohibited--to exclude undesired products, mostly luxury foods and other consumer goods or items produced in Egypt. The number of such items banned progressively increased in 1989. The bans exempt imports for the tourism sector and can be waived in the case of local shortages or other considerations at the discretion of the Ministry of Economy. They have had little impact on overall U.S. exports. U.S. exporters of luxury foods have seen a major drop in sales to Egypt as a result of the establishment of the import ban list.

Branches of foreign banks are prohibited from engaging in local currency operations. Insurance is largely a state monopoly. There are restrictions on the number of foreign motion pictures that may be imported into Egypt.

Although there are no formal investment barriers, all foreign investments must be approved by the investment authority. A new investment law--Law 230--was approved in July 1989. This new Law revised sections of the Foreign Investment Law (Law 43) of 1974. Law 230 consolidates project approvals in the General Authority for Investment and Free Zones (GAFI). The Law states that the investment approval process is shortened from 60 to 20 days, but all concerned public agencies will still need to sign off for before final approval. The new Law does reaffirm the basic protection against expropriation without compensation, removes certain types of discrimination among the various categories of investors, offers companies better tax treatment and clears the way for debt-equity swaps.

In practice, the Investment Authority imposes local content requirements, restrictions on the number (percentage) of foreign workers, and minimum domestic equity participation. It has not imposed export performance requirements. It provides no relief from Egypt's heavily regulated business environment, however. Project approvals may be denied for arbitrary reasons, usually to protect existing firms from competition, and GAFI wields extensive control over a company's subsequent operations. The U.S.-Egypt Bilateral Investment Treaty, scheduled for implementation in 1990, will provide a further measure of protection to American investors.

In practice, the Government buys whenever possible from its own public sector firms. Domestic private sector firms are chosen for government contracts when their price is within the range of the best foreign bid. The Government has pursued a growing range of countertrade arrangements with Eastern European and developing countries and with firms in the West.

Customs practices, cumbersome and arcane as they are, do not discriminate against foreign-owned business.

6. Export Subsidy Policies

The Government does not specifically subsidize exports. It does rebate some duties paid on imported inputs at the time of re-export of the product. Domestic producers, usually public sector ones, benefit from a variety of subsidies which can have the effect of subsidizing exports. Electricity price subsidies are sizable and, in some cases such as aluminum production, are decisive in making products competitive internationally. Another major Egyptian export commodity, textiles, benefits from government control at an artificially low level of the price paid by the processor for raw cotton. At the same time that it subsidizes them in some areas, the government also obstructs exports in a variety of ways.

Although it has moved recently to eliminate some of these obstacles, there remain large bureaucracies dedicated to assuring that export quality is satisfactory and that export prices are remunerative (in particular, that the exporter is not under-invoicing in order to evade foreign exchange acquisition restrictions).

7. Protection of U.S. Intellectual Property

Egypt is a party to the Berne Copyright and Paris Industrial Property Conventions.

Egyptian copyright legislation has not been strongly enforced. The Ministry of Interior, however, has taken some action against book pirates. An effort is underway within the People's Assembly to enact a stronger and broader law, with enforcement provisions. The main impetus comes from the Egyptian motion picture industry and U.S. firms in the motion picture and computer industries. The Government is supportive, if not yet very aggressively, of protection. Since Egypt is a member of the Berne Convention, U.S. accession to the Berne Convention in March 1989 provides a new legal basis for the protection in Egypt of U.S.-copyrighted materials created on or after that date. Protection for works created before that date still is being negotiated.

Patents and trademarks registered in Egypt can be protected, but the impetus must come from the affected company. Pharmaceutical companies are not able to benefit from the full period of protection since the licensing process is lengthy. In addition, chemical products, including pharmaceuticals, are not patentable.

Piracy of foreign films, computer software, books, and recorded materials is rampant in Egypt. U.S. computer software firms would probably invest in Egypt to produce Arabic-language materials for the Middle East market if copyright protection in Egypt and in the other Middle East markets were improved.

The Egyptian Constitution provides that the Berne Convention is self-executing. Egypt ratified Berne in 1975, significantly after enactment of the basic 1954 Copyright Law. Thus, in cases where the coverage of the existing 1954 Egyptian Copyright Law may be vague or non-existent, such as provisions concerning satellite and cable transmission, data banks, and the question of retroactivity, U.S. copyright holders may be able to rely directly on Berne Convention provisions in the Egyptian courts. However, a legal test case on this point has not yet been pursued in the Egyptian judicial system.

The Government of Egypt in May 1989 was placed on the U.S. Trade Representatives's "Watch List" under the Special 301 provision of the 1988 Omnibus Trade and Competitiveness Act because of problems in intellectual property rights protection. The Egyptian and U.S. Governments are engaged in consultations on intellectual property rights issues.

The imposition of Egyptian quotas on the importation of U.S. and other foreign films and the piracy of U.S. copyright books and computer software and other materials have a significant adverse impact on U.S.-Egyptian trade and investment relations in these areas.

In the Uruguay Round of GATT trade negotiations, the Government has linked protection of intellectual property to rights of access by developing countries to technology.

8. Worker Rights *

a. The Right of Association

The law provides for the workers' right to join local workers' committees, but does not permit strikes. About 20 to 25 percent of the work force is unionized. Company locals are affiliated with national unions, organized along sectoral lines, all 23 of which are required to affiliate with the sole labor federation, the Egyptian Trade Union Federation (ETUF).

The trade union movement is proud of the relative independence of its election procedures; a large number of union presidents were not reelected in 1987. The person and property of union leaders are not threatened by the Government or non-governmental antiunion forces.

b. The Right to Organize and Bargain Collectively

The law provides for the workers' right to organize. Collective bargaining is permitted in the private sector (including in export processing zones), but not in the public sector where most union members are employed. For the most part, private sector wages and benefits are higher than those in the public sector. Public sector wages and benefits are set by law at the national level after internal government deliberations in which ETUF views are presented.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced labor. There are no reports of forced or compulsory labor.

d. Minimum Age for Employment of Children

The minimum age for employment is 12 (the age for completion of compulsory education). The law permits children between 12 and 16 to work up to six hours a day with one hour of rest, but prohibits them from working after 10 p.m. or engaging in certain forms of dangerous or heavy labor. There is no evidence that any consistent attempt is made to enforce child labor laws. There is considerable evidence that in practice underage children continue to work fulltime as economic necessity forces families to increase their income.

e. Acceptable Conditions of Work

Employers are required by law to provide acceptable terms and conditions of employment for their workers. The minimum wage is part of a social contract which includes generous government subsidies of foodstuffs and other basic necessities. The regular workweek is 48 hours for factory workers; many workers increase their incomes by working overtime. Employers also are legally required to meet worker safety and health norms modeled on ILO standards. Employers who violate these various legal provisions face civil and criminal penalties. Labor inspectors enforce these provisions with varying success. Employers are seldom prosecuted, but the courts occasionally impose fines on offenders. The worst violators are small workshop owners in the informal sector whose operations are not subject to supervision or inspection.

f. Rights in Sectors with U.S. Investment

Worker rights conditions are similar throughout the sectors of petroleum, food and related products, primary and fabricated metals, non-electric machinery, electric and electronic equipment, and transportation equipment. The labor law permits the right of association and organization, prohibits forced labor, bans child labor under the age of 12, regulates the conditions under which children ages 12 to 16 may work, and sets standards with regard to minimum wages, hours, and occupational safety and health.

Collective bargaining is permitted between unions and private sector companies, but the percentage of union members in private sector companies is much lower than in the public sector, largely because wages and benefits in the private sector generally are superior to the public and many workers do not see union membership as advantageous.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		1,405
Total Manufacturing		50
Food and Kindred Products	(D)	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	1	
Electric & Electronic Equipment	4	
Transportation Equipment	8	
Other Manufacturing	-4	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Egypt country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

INDIA

Key Economic Indicators

(Billions of U.S. dollars ($) unless otherwise noted)

	1/ 1987/88	1988/89	1989/90 (est)
Income, Production and Employment			
GNP at constant prices (1980-81)	118.5	131.5	136.1
Real GNP growth (pct)	2.8	11.0	4.5
GNP by sector (pct)			
Agriculture	31.0	32.2	33.0
Manufacturing	24.0	21.1	22.0
Services	45.0	46.7	45.0
Per capita income (1981 $151.0	164.2	166.6	
Labor force (millions)	311.0	319.0	327.0
Unemployment rate (pct)	18.5	19.3	20.0
Money and Prices			
Money supply (M1) (bils rupees)	578.0	662.8	754.5
Comm interest rate (pct)	16.5	16.5	16.5
Savings rate, gross (pct)	21.0	22.0	21.3
Investment rate (pct)	23.0	23.1	23.4
Consumer price index (1960 = 100)	736.0	803.0	879.3
Wholesale price index (1970 = 100)	405.4	428.6	465.0
Exchange rates (Rs/$)			
Average	13.0	14.5	16.5
Parallel (est)	14.0	16.5	18.5
Balance of Payments and Trade			
Total exports FOB	12.6	14.7	17.2
Exports to U.S.	2.8	3.2	3.6
Total imports CIF	19.8	22.2	24.7
Imports from U.S.	1.5	2.5	2.7
Aid from U.S. (except Title II) (mils $)	23.6	22.2	44.4
Aid from other countries	342.9	370.3	n/a
External public debt	43.9	46.1	48.7
Debt service	5.5	6.0	6.1
Foreign exchange reserves	6.4	5.0	4.4
Gold (billion rupees) 2/	2.7	2.7	2.7
Overall balance of payments (mils $)	-339	-1432	-539

1/ The Indian fiscal year is April 1 to March 31.
2/ India's official gold holding is 10.449 million fine ounces (one ounce equals 31.11 grams) and is valued at a notional price of rs 84.39 per ten grams.

Sources: Indian Government Central Statistical Organization, Economic Survey; Reserve Bank of India Bulletins; budget documents; the World Bank; and the U.S. Department of Commerce.

INDIA

1. General Policy Framework

India has a population of nearly 820 million and one of the lowest per capita incomes in the world. Some 70 percent of the labor force is employed in the agricultural sector, which accounts for a third of national output. India is a mixed economy with a development strategy aimed at economic growth, social justice and self-reliance. As a result, the central government has promoted, owned and regulated industry and commerce, although 65-70 percent of output comes from the private sector. India produces a wide range of manufactured products, from consumer goods to heavy capital equipment.

Public sector manufacturing firms are concentrated in basic industries--steel, power, energy, and services. For three decades since independence in 1948, India followed a largely autarkic development strategy, emphasizing import substitution and extensive licensing controls over internal production. While it encouraged rapid growth in India's capital base, this approach isolated the Indian market from many of the advantages of international trade. When Rajiv Gandhi became Prime Minister in 1984, the Government began relaxing some trade and production controls, particularly industrial licensing requirements, foreign trade and tax policy. India's able and growing private sector has responded favorably to the new opportunities available under this liberalization program; real economic growth over the past decade averaged five percent, and there has been rapid growth of manufactured exports.

Unfortunately, much of the new investment promoted by liberalization has been heavily capital-intensive, and has not provided sufficient employment to the country's large, growing labor force. Unemployment, increasingly overburdened infrastructure, high local production costs, rapid population growth and shrinking foreign exchange reserves pose important constraints on further economic growth, and there has already been a marked decline in the rate of industrial expansion since the second quarter of 1989.

India's rapid economic growth over the past five years has been financed in part by central government deficit spending. The consolidated deficit has been running over seven percent of GNP for the past three years, and could reach eight percent in 1989-90. Only ten percent of the deficit has been financed by foreign borrowing, with the remainder underwritten by sale of government bonds, borrowing from public sector financial institutions and printing money. Increasing interest payments on previous loans, and the rising cost of subsidies for food and fertilizers made spending cuts difficult in 1989 since it was a parliamentary election year.

The Gandhi Government introduced a number of fiscal incentives aimed at reducing India's current account deficit, promoting domestic private investment and encouraging economic growth. These include further reductions in industrial licensing requirements, a 20 percent tax allowance for investment in high priority industries, full tax exemption for export earnings, and tax incentives for equity investors. While past decontrol measures may remain in place under the new government of V.P Singh, new efforts toward further liberalization and deregulation may be deferred. The new Government has indicated it will place greater emphasis on agriculture and small-scale industry.

Monetary expansion since 1986 has averaged 17 percent annually. This expansion has put upward pressure on both wholesale and consumer prices, and may result in double digit inflation in 1990. The Reserve Bank of India is not permitted to use interest rate adjustments or open market operations to manage the money supply, and must rely instead on changes in reserve requirements or administrative limits on the volume of bills issued to keep monetary expansion in check. The reserve requirement was raised to its statutory limit in 1989, and thus can no longer be used to hold monetary growth in check without new legislation. The Reserve Bank does regulate the interest rates that commercial banks can offer, with agriculture, small scale industries and other priority sectors receiving preferential rates, while there is a squeeze on nonagricultural credit.

2. Exchange Rate Policy

Under the Foreign Exchange Regulation Act of 1973, India has a comprehensive and complex system regulating use of foreign exchange for travel, trade, foreign investment and employment of expatriate workers. The value of the rupee is administratively determined relative to a basket of currencies which includes the U.S. dollar, the deutschemark, the yen, the French franc and the British pound, with the latter serving as the intervention currency. Rupee value is permitted to fluctuate within a five percent band. In late 1987, the Government imposed a 15 percent tax on foreign exchange used for travel by Indian residents, which has in effect created a dual currency regime.

Since early 1988, the Reserve Bank has been allowing gradual but continual depreciation of the rupee vis-a-vis the dollar and other hard currencies in order to encourage exports and raise the cost of imports. Ironically, this decremental approach has contributed to a decline in foreign currency reserves and even further downward pressure on the rupee. Remittances from abroad have slowed in expectation that they will be worth more rupees in a few weeks time, exporters are asking their clients to delay payment for the same reason, while importers have been paying as quickly as possible to avoid increased rupee costs of hard currency. As of November 30, 1989 the dollar was worth 16.935 rupees.

3. Structural Policies

Prices of foodgrains, edible oils, energy, petroleum, fertilizers and most other essential products are regulated by the central government. Government procurement prices for agricultural commodities are announced in advance of the sowing season in order to influence production decisions. Farmgate prices for foodgrains and other staple commodities have been gradually increased in recent years in order to encourage production. Industrial prices are also controlled.

Several products are under a dual pricing system; a set percentage of output is supplied to consumers at a fixed price through government distribution systems, with the remainder sold by the producer on the free market. Essential commodities are thus sold at one price in the "fair price" shops, and are at the same time available at higher prices in the free market. In addition to administrative price controls, the Government heavily subsidizes foodgrains and fertilizers. Such subsidies now account for ten percent of the central government's current expenditures. Indian agriculture's continued dependence on the monsoon rains means occasional serious shortages in foodgrains production, which can have an impact on sales of U.S. agricultural commodities.

The Government depends on indirect taxes, in particular excise duties, for nearly 90 percent of its revenues. India has one of the highest average tariff rates in the world, despite selective tariff decreases on some capital goods and semi-manufactured inputs for use in upgrading Indian technology. Duties on raw materials, equipment and spare parts range from 40 to 100 percent. Duties of as high as 300 percent are not uncommon for categories of goods which are also produced locally. These high excise duties raise local production costs and make Indian exports less competitive in foreign markets. Corporate income tax rates vary from 50 percent for Indian firms to 65 percent for foreign companies. India and the United States signed a double taxation treaty on September 12, 1989.

The Government imposed a drought surtax of five percent in 1987; this surtax was still in effect at the end of 1989. The tax picture is further complicated by a variety of taxes levied by state governments. The Indian tax system is highly complex, and there are numerous provisions for exemptions or tax rebates. The Government has used tax policy to encourage increased private saving; e.g., interest and dividend income, up to a limit of 13,000 rupees a year, is exempt from personal income tax, and agricultural income is constitutionally exempt from central government taxes. Profits accruing from exports are also tax free. High marginal tax rates and the complexity of the system have resulted in significant tax evasion. In 1989, the Revenue Department stepped up collection efforts, and as of October, collection of direct taxes had increased by 50 percent. The Indian Planning Commission has recommended changing India's tax policy, placing greater emphasis on direct taxes, consumption taxes, and even lower tax rates as a means of reducing evasion and increasing revenues.

The Indian economy is highly regulated, although there has been some movement toward deregulation since 1985. Despite this deregulation, significant barriers to U.S. exports still exist. India's current trade regime is governed by the three-year (1988-91) import-export policy. Imports of "nonessential items"--i.e., most consumer goods--are essentially prohibited, and the majority of products may only be imported by end users. The government encourages formation of export-oriented units which export 75 percent or more of production and which can be wholly owned by foreign firms.

Foreign investment is also tightly controlled. Equity participation is limited to 40 percent for most investments, although exceptions up to 100 percent foreign ownership are made for high technology or export-oriented investments. Once an investment has been authorized, remittances are also, in principle, approved. Equity investment must be made in hard currency, and cannot be linked to transfer of capital equipment. Royalty and licensing payments are also restricted, and cannot exceed five percent of the value of annual production. All joint ventures must be approved by the central government; approval is often contingent upon export commitments, transfer of technology, and a program of increasing domestic sourcing of inputs. Since retail prices in the highly protected domestic market are generally higher than international prices, joint ventures can be quite profitable even under these conditions. However, these constraints--in particular the local sourcing requirement--limit U.S. exports. As a result, the U.S. Government has cited India for its investment practices under the "Super 301" provision of the 1988 Omnibus Trade and Competitiveness Act.

4. Debt Management Policies

India has traditionally run high trade deficits, but has nonetheless followed a conservative borrowing strategy which has involved covering most external financing requirements through soft development loans. As a result, India has maintained an international credit rating that is one of the strongest in the developing world. However, the Government has turned increasingly to commercial sources to finance the rapid economic growth of the past five years, particularly for financing imports of capital equipment and high technology. Private firms are also relying more on borrowing abroad to finance major projects. This has meant a rising average interest rate on outstanding debt, and an increase in the debt service burden relative to external revenues. To meet this increasing obligation, India has begun to encourage export growth and has given incentives to non-resident Indians to deposit funds in local hard currency or rupee accounts.

India's external debt--including short-term debt and hard currency deposits of nonresident Indians--has risen from $31.6 billion in 1983 to nearly $60 billion in 1989. Debt service in 1989 was an estimated 29.4 percent of total current receipts. As of 1988, medium- and long-term multilateral obligations accounted for 31 percent of total debt, with bilateral debt making up 24 percent; publicly held locally guaranteed commercial debt, 11.5 percent; and private non-guaranteed commercial debt about 6.0 percent.

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The World Bank (IBRD and IDA) is India's most important creditor (and India is the Bank's most important borrower), with outstanding concessional and non-concessional obligations representing 28.6 percent of total outstanding debt in 1988. India has pressed to maintain its 15 percent share of total concessional assistance extended by IDA worldwide. India has also borrowed from the Asian Development Bank and a number of bilateral donors including the United States and Japan, as well as from private commercial banks on government guarantee. In 1981, India borrowed SDR3,900 million from the IMF under an extended financing arrangement; this loan is currently being repaid. India has never rescheduled its official or private debt, and maintains a good international credit rating. However, since 1988 there has been increasing concern that the country's debt burden may be reaching the limits of India's debt management ability, and future debt management will be watched closely in international financial circles.

5. Significant Barriers to U.S. Exports and Investment

India's comprehensive import licensing regime placing severe limits on a wide range of U.S. goods which would be competitive in a more open trade regime. Import of consumer goods and luxury items is largely prohibited. Petroleum, iron and steel, other metals, and agricultural imports must be channeled through public sector trading companies. Imports of capital goods, spare parts, raw materials and semifinished industrial goods are limited to end users. Tariffs and licensing requirements on some of these goods have been eased over the past three years, in spite of a large and persistent trade deficit, and 40 percent of non-petroleum imports now enter under open general licenses. The Government has significantly improved access to imported capital and intermediate goods for exporters, and recent import policy changes have reduced the role of quantitative restrictions.

Banking services are limited by direct government controls over entry of foreign or new domestic banks into the Indian market. Entry of foreign banks, when permitted, is generally conditional upon reciprocal entry for publicly owned Indian banks into the foreign bank's country of origin. India does not allow foreign nationals to practice law before Indian courts, nor to hold membership in Indian stock exchanges. Exchange control regulations limit hiring of expatriate managers and consultants. There are also limits on foreign equity investment, restrictions on entry of foreign personnel and limits on establishment of local residence. Government monopoly over life and general insurance services was one of the reasons that the U.S. Trade Representative cited India under the Super 301 provision of the 1988 Omnibus Trade and Competitiveness Act. At present, foreign insurance companies may only compete in maritime, aviation or other high-risk insurance, and in reinsurance.

All foreign and domestic investment must be approved by multiple departments of the Government of India. Government priorities which must be addressed in order to gain approval include improving India's industrial base through transfer of the latest technology, location of plants in less developed regions, commitment to export a substantial proportion of output, and development of a program to increase use of locally produced inputs over time. Foreign equity is generally limited to 40 percent, and royalty payments under licensing arrangements generally do not exceed five percent of the value of annual output less the value of imported inputs. However, foreign equity participation can be increased to 100 percent for selected foreign investors in high technology, export-oriented industries, or tourism. There have been no forced disinvestments in manufacturing industries in the past decade, but foreign firms have divested holdings in response to onerous government policy changes.

Capital and profits may be repatriated without restriction, although the Reserve Bank usually pays out large transfers in installments. Ownership of land by nonresidents must be approved by the Reserve Bank, and foreigners are not permitted to engage in trading activities of any kind. Investment policy has been under review for some time, and the equity ownership restriction may be relaxed in 1990. However, local sourcing requirements are likely to remain, and the requirement for export commitments may even be reinforced in light of India's deteriorating balance-of-payments.

6. Government Export Subsidies

As part of its export promotion policy, the Government has introduced expedited administrative procedures for processing imports and exports for exporting firms. Exporters also receive favorable access to imported inputs and equipment, including duty rebates on imports. Export profits are tax exempt, and a number of direct subsidies to exporters have been introduced. Under the cash compensatory scheme, the Government rebates indirect taxes to exporters at rates that vary according to product group. The Government has also introduced the International Price Reimbursement Scheme whereby exporters receive price rebates that are designed to make the effective price of raw material such as steel and pig iron equal to their international price. Firms which export at least 25 percent of output also may buy diesel fuel at the international price, rather than paying the higher local price.

7. Protection of U.S. Intellectual Property

India is a member of the World Intellectual Property Organization and is a signatory to the Berne Convention and the Geneva Phonograms Convention.

The Government holds that any system which guarantees protection of intellectual property must balance the interests of intellectual property holder, the consumer and society in general. The balance which the Government has struck manifests itself in a system with much weaker protection than that available in developed countries and many newly-industrialized countries. To some extent, however, Indian courts have upheld internationally accepted principles of intellectual property rights protection (including decisions upholding the rights of owners in trademark infringement cases) but decisions have been subject to lengthy delays.

India's patent law was rewritten in 1970, diminishing product patent protection for several categories of goods. Under current law, such protection is granted for 14 years except for products intended for use or capable of being used as food or medicine, or for substances prepared or produced by chemical processes. The latter category includes foodstuffs, chemicals, pharmaceuticals, veterinary products, pesticides, agricultural chemicals, metal alloys, optical glass, and semiconductors. For these items, only the production process, and not the product, may be patented; for foods and pharmaceuticals the patent protection is granted for either seven years from the time of filing or five years from the time of sealing the application, whichever is shorter.

Patents are not granted for inventions in the areas of atomic energy; methods of agriculture or horticulture; processes for treatment of humans, animals or plants; biotechnology; environmental pollution control; or inventions based on general scientific principles. Press and business attention to Indian patent law over the past two years has prompted new interest on the part of government and industry in examining the benefits and costs of this weakened patent regime.

Indian law recognizes and provides for compulsory licensing and licenses of right, but these are rarely invoked. The Indian pharmaceutical industry is quick to produce new drugs which have been successfully introduced on the international market.

International copyright holders and local producers alike are plagued by piracy of books, movies, music, and computer software. While copyright protection laws (including criminal sanctions against infringement of copyrighted computer software) meet or exceed international standards, effective enforcement does not exist. However, law enforcement agencies and the courts appear to be bringing increasing pressure on copyright infringers.

The cost to U.S. firms of inadequate intellectual property rights protection and enforcement in India is significant, although difficult to quantify. Given India's restrictive trade regime, there is no guarantee that ending sales of pirated products would result in increased U.S. exports of legitimate goods, since many such items are not now legally eligible for import. Further, since pirated items are sold at significantly lower prices than legitimate goods, elimination of piracy in India could reduce the sales volume of such goods sufficiently to reduce total sales revenues.

There are also some losses to U.S. firms from counterfeiting and trademark infringement, but these are marginal when compared with the losses due to lack of product patent protection for pharmaceuticals and chemicals. India was named in May 1989 to "Priority Watch List" of the U.S. Trade Representative for inadequate intellectual property rights protection under the Special 301 provisions of the 1988 Omnibus Trade and Competitiveness Act.

8. Worker Rights *

a. The Right of Association

Indian workers and employers have the full constitutional right of association as defined by the International Labor Organization (ILO). Unions represent less than 25 percent of the total of industrial workers but about 50 percent of industrial workers in the "modern" sector. An estimated 70 percent of labor works in the agricultural sector, traditionally unorganized, although organizing efforts are underway. Major trade union organizations are affiliated with recognized international confederations, such as the International Confederation of Free Trade Unions. The ILO maintains an office in New Delhi.

b. The Right to Organize and Bargain Collectively

The right to organize (including protection against antiunion discrimination) and to bargain collectively has existed in Indian law for decades. Trade unions carry out these activities independently and without government or, in general, employer attempts to interfere. In addition to the availability of normal civil and criminal courts, a system of specialized labor courts exists to hear and adjudicate labor-related complaints. Where collective bargaining fails to establish locally equitable wage levels, the Government may set up tripartite boards (including union representation) to determine them. Several export processing zones exist but are not particularly active at the present time. Physical access to such zones is ordinarily limited, even to union organizers, and unions do not appear to be active within them.

Workers may strike in principle but under the Essential Services Maintenance Act the Government may ban strikes and require conciliation and arbitration in specified industries.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by the Indian Constitution, and legislation passed in 1976 specifically bans the practice of "bonded labor." A Supreme Court decision defined "forced labor" as work at less than the minimum wage (minimum wages are usually set by the states, not the central government). Under this unique definition, "forced labor" is widespread throughout India, particularly in rural areas. "Bonded labor," although illegal and actively opposed by the government, also occurs among significant numbers of agricultural and construction workers. Critics say that government efforts to free workers from their bonds are inadequate and rarely lasting.

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d. Minimum Age for Employment of Children

It has been estimated that one-quarter of the world's child labor is attributable to India, where poverty and the lack of compulsory education make it an especially serious problem. According to a Labor Ministry survey, one out of four children between the ages of 5 and 15 is working. Government statistics put the total at 17.5 million in 1985.

In 1986 legislation was enacted to ban children from working in hazardous occupations. A Small Child Labor Division within the Labor Ministry has been created. Despite various public and private sector efforts, progress has been slow in eradicating abuses of the child labor regulations and enforcement of existing law appears inadequate to cope with the dimensions of the problem.

e. Acceptable Conditions of Work

The Factories Act establishes an 8-hour workday, a 48-hour workweek, and various standards for working conditions. These standards are generally enforced and accepted in the modern industrial sectors, but are less often observed in traditional sectors. The basic wage varies according to the state and sector of industry but unionized workers receive much more than the minimum wage. Occupational safety and health measures also vary widely. Governmental resources devoted to inspection and enforcement are generally recognized as inadequate.

f. Rights in Sectors with U.S. Investment

U.S. capital investment in the goods producing sectors in India is extremely limited. Conditions of work at U.S. firms operating in these sectors meet or exceed local standards.

INDIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		5
Total Manufacturing		415
Food & Kindred Products	1	
Chemicals & Allied Products	176	
Metals, Primary & Fabricated	69	
Machinery, except Electrical	100	
Electric & Electronic Equipment	(*)	
Transportation Equipment	(D)	
Other Manufacturing	48	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		421

(D)-Suppressed to avoid disclosing data of individual companies

(*-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business
August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the India country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

IRAN

Key Economic Indicators

(Millions of Iranian Rials (IR) unless otherwise stated)

	1987	1988	1989
Income, Production, and Employment			
Real GDP	9,146.13	8,973/57	n/a
Real GDP Growth Rate (pct)	2.0	-1.89	n/a
GDP by sector			
Manufacturing	n/a	n/a	n/a
Agriculture	n/a	n/a	n/a
Petroleum	10.0	n/a	n/a
Income per capita	n/a	n/a	n/a
Labor Force (millions) (est)	25.8	26.6	27.5
Money and Prices			
Money supply (M1) (bils rials)	5.78	6.14	n/a
Commercial interest rates	n/a	n/a	n/a
Savings rate	n/a	n/a	n/a
Investment rate	n/a	n/a	n/a
Consumer price index	n/a	n/a	n/a
Wholesale price index	n/a	n/a	n/a
Exchange rate (IR/$)			
Official	71.5	68.7	70.0
Parallel	n/a	n/a	n/a
Balance of Payments and Trade ($ millions)			
Total exports FOB	10,900	9,400	n/a
Exports to U.S.	1,752	8,900	n/a
Total imports CIF	8,981	11,000	n/a
Imports from U.S.	38	59	n/a
Aid from other countries	n/a	n/a	n/a
External public debt	n/a	4,300 1/	n/a
Annual debt service (paid)	n/a	n/a	n/a
Gold and forex reserves	n/a	n/a	n/a
Trade balance	1,320	-360	n/a
Current Account	-610	-1,440	n/a

1/ Medium- and long-term debt

1. General Policy Framework

A decade after the revolution which brought Ayatollah Khomeini to power, the Iranian economy is suffering from inflation, stagnation, politically-driven economic decisions, and a widespread distrust among Iranian officials of the indigenous private sector. With the 1988 ceasefire in the conflict with Iraq, many observers had hoped for a rapid economic recovery in Iran. Such improvements await comprehensive economic reform by the Government in Tehran, as well as significant growth in confidence among potential creditors and investors.

The Iranian economy still suffers the effects of the eight-year war with Iraq. Austerity import measures severely affected the industrial sector, which, along with the petroleum infrastructure, suffered dramatically during the war. Most Iranian cities were damaged by the fighting, leaving millions homeless and creating serious social and economic disruptions. Deep factional differences persist on important economic issues, including reconstruction strategy and the role of foreign assistance; as a result, progress toward solving these problems is likely to be slow.

The recently elected administration of President Hashemi-Rafsanjani has proposed an ambitious five-year economic development plan, which was approved by the Iranian Parliament at the end of 1989. The plan, among other things, envisions average annual growth of 8 percent, 10.3 annual increase in investment (over 60 percent of which would go to the private sector), gas and oil revenues totaling $83 billion over five years, and a general break with the tight, centralized government controls of the last eight years. It also calls for using up $27 billion in foreign economic credits to rebuild the Iranian economy. Proponents of a centralized, planned economy have been highly critical of the plan.

Until the Government reaches a consensus on the course of economic policy and the role of foreign firms and capital in the reconstruction process, participation by the U.S. private sector will be difficult. A U.S. role in Iran is complicated by the fact that diplomatic relations remain ruptured. Iran's current shortage of hard currency also dampens near-term prospects. Changes in Iran's economic policies are likely to come only gradually. Deferred payment and barter arrangements are attractive financing methods for Iran in prospective business arrangements with foreign contractors and suppliers.

The Iranian Government runs a deficit, believed to have been increasing steadily over the last several years. Some reports suggest the government financial deficit now amounts to almost half its annual expenditures. The economy is afflicted by high inflation whose potential impact has been masked by central government controls on the economy.

2. Exchange Rate Policies

Iran has attempted to conserve its deteriorating foreign exchange position in a number of ways, including import controls and restrictions on private sector companies trading foreign currencies among themselves. The Government has also cut back imports over the past few years, but further reductions would cut deeply into already declining living standards and would hurt further manufacturing industries, which already suffer severely from lack of spare parts. The Government has devised a new three-tier exchange rate system designed to direct scarce hard currency to the most critical sectors of the economy, including major industries, but the effects are as yet unclear. The foreign exchange squeeze could continue to ease somewhat with sustained improvement in oil prices on the international market. Iran has been making efforts to broaden the market for its petroleum products.

3. Structural Policies

Banking, the petroleum industry, transportation, government, utilities, and mining have been nationalized, complicating prospects for sectoral efficiency and private foreign investment. Corruption, mismanagement, and ideological rigidity has dampened economic activity.

The Government has imposed price controls on certain commodities. However, reportedly, prices of kerosene, rice, and meat continue to increase. Rationing of cooking oil and rice continues due to short supply.

Rationing of certain commodities was necessary during the war with Iraq. With an end to the fighting, Iranian policy makers have turned their attention to rebuilding the war-torn economy but systemic constraints and internal rivalries render problematic both the pace and success of these efforts.

4. Debt Management Policies

In the past, a key tenet of the Iranian Government has been autarky. Its aversion to borrowing starved the economy of cash to pay for imports of capital equipment which has left equipment in the manufacturing and petroleum sectors in severe disrepair. Oil production continues to suffer as a consequence. Thus, formal external debt is believed to be low, although substantial trade-related short-term (up to one-year) debt has built up. The new Five-year Plan has authorized up to $27 billion in foreign borrowing.

5. Significant Barriers to U.S. Exports

Formal diplomatic relations between the United States and Iran do not exist. A U.S. business presence in Iran is restricted by the current state of political relations. Moreover, U.S. export restrictions and the Iranian foreign exchange shortage are major deterrents to reviving significant trade with the United States. Despite these problems, a small trade relationship does exist; U.S. exports to Iran have been climbing steadily over the past several years but still total less than $100 million.

The U.S. prohibits the export of items on the U.S. Munitions List, dual use items, crime control and detection devices, chemical weapons precursors, nuclear and missile technology, and equipment used to manufacture military equipment. Iranian exports to the United States were prohibited by order of the President on October 29, 1987. U.S. sanctions can be considered the most significant barrier to the export of U.S. goods and services to Iran.

6. Export Subsidies Policies

In a countervailing duty investigation on Iranian pistachios, the U.S. pistachio industry alleged that a foreign exchange subsidy was available to exporters in Iran. Although countervailing duties were imposed, the U.S. Department of Commerce was never able to verify the existence of this program because of lack of cooperation from the Iranian authorities and a paucity of information from the growers.

7. Protection of U.S. Intellectual Property

Iran is a signatory to the Paris Convention for the Protection of Industrial Property.

Patent protection is below the level of protection in the United States. Copyright protection is below the standards provided for in the Berne Copyright Convention.

8. Worker rights

a. The Right of Association

There are no real labor unions. A national organization known as the "Labor House," founded in 1982 as the labor branch of the now-defunct Islamic Republican Party, is the only authorized national labor organization. Labor House is headed by the Minister of Labor; as such, it is largely a conduit of government influence, not a trade union founded by workers to represent their interests.

Officially sanctioned "Islamic labor councils" present in most factories are also instruments of government control and not bodies created and controlled by workers, although they have frequently been able to block layoffs or firings of workers.

No information is available on the right of workers to strike. No strikes are known to have occurred in Iran in 1989.

b. The Right to Organize and Bargain Collectively

In practice, the right of workers to organize independently and bargain collectively is extremely limited. Whether labor legislation and practice are uniform throughout the country, including the export processing zones, is unknown.

c. Prohibition of Forced or Compulsory Labor

Information as to whether forced or compulsory labor is used in Iran is unavailable.

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d. Minimum Age for Employment of Children

Iranian labor law, which exempts agriculture, domestic service, family businesses, and, to some extent, other small businesses, forbids employment of minors under 12 years and places special restrictions on the employment of minors under 18. In addition, women and minors may not be used for hard labor or, in general, for night work. The extent to which these regulations are enforced is not known.

e. Acceptable Conditions of Work

The Labor Law establishes a 6-day workweek of 48 hours maximum (except for overtime at premium rates), with 12 days per year of leave with pay and a number of paid public holidays. The Law also has provisions on minimum wages and health and safety in work places. Further information on these laws is not available. Given the large segments of the economy exempted from the Labor Law, the state's still unresolved administrative disorganization resulting from the revolution, and the general lack of effective labor unions, it is unclear to what extent the provision of Iran's labor law affect most of the labor force.

f. Rights in Sectors with U.S. Investment

The U.S. investment which remains in post-revolutionary Iran as reported to the U.S. Department of Commerce (see table below) is residual investment in the petroleum sector.

Information on worker rights generally is difficult to obtain.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		22
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(*)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		22

(*-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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Key Economic Indicators

(Millions of Iraqi Dinars (ID) unless otherwise noted)

	1987	1988	1989
Income, Production, and Employment			
National income	13,628	14,991	16,49
Per capita income	818	919	97
Gross domestic product	16,318	17,279	18,33
GDP growth rate (pct)	6	6	
By sector (output)			
Agriculture	2,518	2,863	3,25
Manufacturing	1,550	1,744	1,76
Mining	3,354	3,686	4,05
Services	3,950	4,325	4,73
Labor force	n/a	n/a	n/a
Unemployment rate	n/a	n/a	n/a
Money and Prices			
Money supply	n/a	n/a	n/a
Commercial interest rate	9	9	9
Savings rate	n/a	n/a	n/a
Investment rate	n/a	n/a	n/a
Consumer price index (1979 = 100)	229.8	278.9	348.0
Wholesale price index	n/a	n/a	n/a
Exchange rate ($)			
Official	3.0	3.0	3.0
Unofficial	0.42	0.60	0.30
Balance of Payments and Trade			
Total exports FOB	3,688	3,750	4,00
Exports to U.S.	164	502	1,04
Total imports C&F	2,344	2,688	2,70
Imports from U.S.	213	361	472
Aid from U.S.	nil	nil	
Aid from other countries	n/a	n/a	n/a
External public debt (non-Arab)	10,93	12,20	13,90
Annual debt service obligations	2,00	2,21	2,34
Gold & forex reserves	1,00	1,00	1,00
Balance of payments	n/a	n/a	n/a

1. General Policy Framework

Iraq has a centrally planned, command economy. With the exception of some consumer goods, imports and exports are controlled and administered by state establishments. The realization that statist economic policies had failed to generate adequate economic growth and foreign exchange savings and earnings, stimulated the Iraqi Government to embark on limited economic liberalization program designed to improve a efficiency in state-run productive enterprises and to encourage increased private sector activity. The state has privatized or created mixed sector companies for trade in consumer goods (both at the import and retail levels), agricultural production, food processing, some light industry and tourism. Through tax incentives and tax holidays, it is attempting to stimulate foreign Arab and domestic investment in light industry. There is some indications that the Iraqi Government will consider joint venture agreements on a case-by-case basis in non-strategic sectors (the military and petroleum sectors are considered to be strategic.) While encouragement of the private sector is a positive development toward a more liberal economy, official pronouncements make clear that these are primarily pragmatic measures rather than a shift in Ba'ath Party philosophy. The state retains full ownership of heavy industry and the oil and minerals sectors.

The Iraqi Government does not provide data on its budget or on its fiscal and monetary operations. It is apparent however, that during Iraq's nearly eight-year war with Iran, the fiscal deficit--resulting from military spending of an estimated $5 billion a year, other wartime expenditure, and the loss of oil export capacity at the outset of the war--was financed through borrowing from friendly Arab states and through expanding the money supply, with consequent high inflation. Financing has and continues to be a common requirement for both Arab and non-Arab suppliers. The Government has not turned to the International Monetary Fund or other multilateral financial institutions for assistance, nor does it provide data to these institutions necessary for commercial banks to assess fully Iraq's credit worthiness.

The Government approved Iraq's first Foreign Investment Law in April 1988. The Law is designed to expand Arab foreign investment in Iraq and to foster regional economic coordination and integration. Local media reports indicate that the Government places emphasis on investment in industrial, agricultural, tourism, construction and engineering projects. Non-Arab foreign investment generally remains prohibited; however, joint ventures may be approved on a case-by-case basis.

Arab foreign investment in the past had been largely subject to the same regulations and provisions as local investment. However, foreign Arab investment was confined to specific areas prescribed by the Iraqi government's development plan. Many of these limitations have now been removed, although the oil sector and strategic industries (e.g., military industries) are not open to foreign Arab investors. Apart from these areas, the Government is selective with regard to the assets it chooses to sell and in identifying investors deemed acceptable.

The new Law provides several preferential conditions. The principal incentive is guarantees against nationalization as well as against any future legislation which might prejudice investment rights under the Law. During the first five years, investment is exempted from income taxes and repatriation of profits is permitted up to 20 percent per year of the original investment capital. In addition, Arab foreign investment is exempted from a number of duties, fees and taxes that apply to Iraqi investment. The new Law has yet to translate to a significant inflow of foreign Arab capital. Arab investors thus far appear to require higher and more rapid rates of return than those expected from existing investment opportunities.

2. Exchange Rate Policies

The Iraqi Government maintains a constant exchange rate of $1.00/ID 0.310. There are no legal parallel market rates and the dinar may not be transferred legally into or out of Iraq. In the domestic black market and in dinar trading abroad its value has fluctuated from a high of $1.00/ID 0.79 following the announcement of a ceasefire in the war between Iraq and Iran in August 1988 to a current low of $1.00/ID 3.00.

3. Structural Policies

The state controls all exports and imports. Tight control is exercised over private sector commerce (around 10 percent of imports) through an import licensing system. However, new regulations were issued in 1988 allowing the private sector to import consumer goods, spare parts and capital goods provided no transfer of hard currency from the Iraqi Central Bank is required. Virtually all tenders issued by the Iraqi public sector require deferred payment terms of twenty-four months or more. A general customs tariff exists with quantitative, but mostly ad valorem duties. Import duties ranging up to 300 percent are levied. Some essential items, however, can be imported free of duty. Preferential tariffs exist within the framework of the Arab Common Market. Another schedule of preferential tariffs is being drawn up for members (Egypt, Iraq, Jordan, and North Yemen) of the regional Arab Cooperation Council. Import prohibitions are enforced to protect local industries and to implement the Israel boycott.

Iraq has a graduated personal and corporate income tax structure. Rates are from: (1) 5 percent on personal incomes of ID 10,000 up to 75 percent on personal incomes of over ID 235,000; (2) 10 percent on industrial company income of ID 16,000 to 55 percent on income over ID 235,000; and (3) 10 percent on corporate income of ID 48,000 to 50 percent on income over ID 272,000. The income tax rate for mixed-sector companies is fixed at 30 percent. Production taxes range between 5 and 30 percent. In an effort to stimulate industrial development, the Government announced new legislation (effective January 1, 1989) which provides a 10-year tax holiday for privately held industrial companies.

After removing price controls in 1987 on privately produced and marketed goods and services, the Government reintroduced controls on locally-produced agricultural products in 1989. It also instituted a one-year price freeze on the sale of goods produced by the public and mixed sectors and implemented a profits ceiling on these sectors effective January 1, 1990.

4. Debt Management Policies

Iraq owes as much as $50 billion to non-Arab creditors primarily for non-military imports and services and has received an estimated additional $30 to $50 billion in assistance from Arab states during the Iran-Iraq war. Data on military debt is extremely limited. Non-Arab debt is mostly short- and medium-term debt. The bulk of the non-Arab debt is owed to the Federal Republic of Germany, France, Italy, Japan, the Soviet Union, Turkey, the United Kingdom and the United States. Iraq continues to reschedule its short-term debt on a bilateral basis and barters oil for debt servicing. Although Iraq's record in meeting its principal payments is poor, it generally makes interest payments. Debt performance varies from country to country. At present, Iraq is attempting to remain current with the United States and the United Kingdom and to reschedule with all other creditors. There is no indication that it is prepared to engage in discussion of multilateral long-term debt repackaging.

While Iraq has oil reserves second only to Saudi Arabia, a population large enough to sustain domestic industry and considerable agricultural potential, servicing and repayment of its external debt will pose significant problems in the financing of imports and projects over the short and medium term. In the absence of a large inflow of post-war Arab aid and/or sharply higher oil prices, it appears that Iraq will continue its current practice of rescheduling debt maturities and soliciting new credits.

Iraq's liquidity problems should be carefully considered by firms wishing to supply goods or project services. Iraq's excellent pre-war record for contract fulfillment is no longer the case. Renegotiation of contracts and deferred payments became common during the war and despite the ceasefire, the situation has yet to improve. Any company contemplating entry into the Iraqi market must be braced for the contingency of contract renegotiation, especially if there is a pronounced and sustained fall in oil prices during the life of the contract. A supplier's willingness to provide financing is and will continue to be a major, if not a critical, factor in determining its access to the Iraqi market.

5. Significant Barriers to U.S. Exports and Investment

Iraqi adherence to the Arab boycott of Israel theoretically limits export and project opportunities for U.S. companies. However, the Government is selective in its application of the boycott and will remove boycott language from tenders and letters of credit when U.S. suppliers are needed. All business done under U.S. Government credit insurance facilities is exempt from boycott requirements.

All imports into Iraq require an import license and may be subject to quota limitations. Licenses are generally valid for twelve months, but may be renewed if the goods ordered have not been shipped and a letter of credit was issued prior to expiration of the license. The primary purpose of import licensing is to control the outflow of hard currency.

Iraq operates two government-owned commercial banks. Iraq does not accept price quotes which include insurance. Suppliers must obtain insurance from the Iraqi National Insurance Company. This insurance is commonly viewed as a "cost of doing business" in Iraq as experience has shown that supplier's claims are often dismissed.

Non-Arab foreign investment is prohibited in Iraq, except as noted previously. There is, however, some indication that this may gradually change. In an effort to attract foreign investment, the Government encourages Iraqi expatriates to repatriate their capital. The question of whether this will apply to Iraqis who have assumed citizenship in a non-Arab country has not been addressed officially, although government officials have stated informally that this will be the case.

6. Export Subsidies Policies

In 1988 crude oil accounted for virtually all Iraqi exports to the United States and 97.5 percent of export value worldwide. After oil, sulfur, urea, phosphates and dates are Iraq's biggest export earners. Iraq is a net importer of agricultural products. Iraq is attempting to reduce its dependence on foreign manufactured goods through a policy of import substitution. Iraqi industrial development has yet to reach an export-oriented phase. However, the Iraqi Government does provide tax breaks and other incentives to domestic producers which enhance the competitiveness of Iraqi goods in the international market. Effective January 1, 1989, a ten-year tax holiday was introduced for industrial enterprises. Industrial facilities receive preferential utility rates. A dual exchange rate system exists to stimulate exports. Export earnings are converted to dinars at the rate of $1.00/ID 1.000 rather than at the official exchange rate of $1.00/ID 0.310.

Exporters are permitted to retain 40 percent of export earnings in foreign currency to import foreign goods, while all other Iraqi citizens are required to convert foreign currency holdings into Iraqi dinars.

7. Protection of U.S. Intellectual Property

Iraq is a signatory to the Paris Convention for the Protection of Industrial Property. Iraq is not a signatory to the principal copyright conventions.

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Iraqi law provides for patent registration and patents of importation which are granted for the unexpired term of the basic foreign patent covering the invention, but not exceeding 15 years. If the patented item is not exploited within three years, a license may be transferred by the government authorities. Trademarks can also be registered, but failure to use a registered trademark for two consecutive years may lead to cancellation by a court decision. Registration lasts for up to 15 years. Iraqi Law Number 67 (1967) provides that any names, signatures, words, letters, figures and designs used in patents, commercial notices and trademarks shall be in Arabic.

Copyright laws on books, audio cassettes, records and computer software are generally not enforced and pirated items are openly sold on the local market. Reverse engineering and adaptation of equipment and technologies was apparent at 1988 and 1989 displays of local military and civilian industrial production sponsored by the Iraqi Ministry of Industry. Western suppliers of computer technology have indicated that computer software copyrights are not being respected. Iraq claims that transistors, integrated circuits, solar cells and other electronic components are produced locally, and, if this is so, there is no evidence that licenses have been acquired from the original suppliers (e.g., France) of technology.

8. Worker Rights *

a. The Right of Association

According to the 1987 census, industrial workers totalled 140,000 of the civilian work force. The public and mixed sectors employed some one million workers and an estimated two to three million workers were employed in agriculture or in other private sector activities. Public sector employees, including most industrial workers, may not join unions and do not have the right to strike. Workers in private and mixed sector enterprises may join trade union committees which are linked to the Iraqi General Federation of Trade Unions (IGTTU) through provincial trade union federations. Although workers have the legal right to strike after providing legal notice to the Labor Ministry, few strikes have been reported since the ruling Ba'ath party came to power in 1968.

b. The Right to Organize and Bargain Collectively

The right to bargain collectively is recognized. Trade unions exist to represent worker interests before management in the context of existing legislation. In the first instance, labor-management disputes are referred to the Ministry of Labor. Unsettled disputes are referred to the judicial system for resolution. Labor legislation is applied uniformly. There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor

Although compulsory labor is prohibited by law, during and after the war with Iran the popular army and the militia of the Ba'ath party employed press gang methods to draft recruits. These activities ceased entirely in November 1988 and the popular army was for the most part demobilized in 1989.

d. Minimum Age for Employment of Children

Children frequently work as necessary to support the family, but the employment of children under 14 is forbidden other than in small-scale family enterprises. Children between 14 and 18 who are employed are protected by law. They work fewer hours and have more privileges than adult workers.

e. Acceptable Conditions of Work

Wages for public sector workers are set by the government. Wages in the small private sector are a functio of supply and demand. The workweek in urban areas is six days, seven to eight hours a day, in the private and mixed sectors. These provisions do not apply to agricultural workers whose hours can vary according to individual employer-employee agreements. Hours for government employees are set by the Minister for whom the employee works. In some Ministries, employees have been required to work as long as 12 hours per day.

Occupational safety programs are in effect in state-run enterprises and inspectors make irregular visits to private establishments. Enforcement varies widely. A government decree to extend occupational safety and health protection coverage was issued and subsequently withdrawn by the Ministry of Labor in December 1988.

f. Rights in Sectors with U.S. Investment

There is no U.S. investment in Iraq. Non-Arab foreign investment is prohibited by Iraqi law, except as noted above.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		0

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Iraq country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Israeli Shekels (NIS) unless otherwise noted)

	1987	1988	1989 est)
Income, Production, and Employment (bils)			
Nominal GDP	55.6	67.0	81.7
Real GDP 1/	46.2	46.9	47.8
Real GDP growth rate (pct)	5.2	1.6	1.0
Nominal per cap income (thous)	8.968	10.869	13.139
Real per cap income (thous)	17,444	7,754	7,770
Population (mils)	4.37	4.43	4.55
Civilian labor force (mils)	1.52	1.58	1.61
Unemployment rate (pct)	5.9	7.1	9.0
Money and Prices (mils)			
Money supply (M1)	3296	3666	N/A
Commercial interest rate (monthly average) 2/	2.7	2.3	N/A
Gross savings rate (pct)	20.3	21.3	21.8
Investment rate	N/A	N/A	N/A
CPI growth (pct)	16.1	16.4	21.0
WPI growth (pct)	20.9	15.8	N/A
Exchange rate (shekel/$1)	1.56	1.69	2.00
Balance of Payments and Trade ($ mils)			
Total merch exports	8220.3	9739.3	10300.0
Exports to U.S.	2758.9	2986.9	N/A
Total merch imports	11920.6	12959.7	12000.0
Imports from U.S.	1932.4	2153.2	N/A
Aid from U.S. (bils $)	3.04	3.05	3.00
External public debt (bils $)	25.4	24.6	24.9 3/
Annual debt service (bils $)	4.2	8.2 4/	N/A
Forex reserves (yr-end) (bil $)	5.9	4.0	N/A

1/ In constant 1986 shekels.
2/ End of period.
3/ Through March 1989.
4/ Includes $4.8 billion conversion of high interest Foreign Military Sales (FMS) loans to bonds.

Sources: Central Bureau of Statistics; Ministry of Finance; Bank of Israel.

1. General Policy Framework

In the four years following the adoption of the 1985 Economic Stabilization program, the Israeli economy experienced two years of growth followed by a sharp slowdown. GDP growth in 1988 was 1.6 percent, and 1.0 percent in 1989. The Palestinian uprising in the occupied territories is estimated to have cost Israel two percentage points of GDP growth in 1988, and a similar amount in 1989. Although inflation was successfully brought down from triple digit levels in the early 1980s to the 15 to 20 percent range from 1986 to 1988, it edged up in 1989 to 21 percent. The economic downturn has contributed to historically high unemployment rates. Nevertheless, there is a growing expectation that the economy has bottomed out and will rebound beginning in the first half of 1990.

For Israeli fiscal year 1989/90 (April 1 to March 31), the Government of Israel budget is 52.4 billion new Israeli shekels (NIS), very close to the FY88/89 budget. The budget deficit was originally projected to reach NIS 1.66 billion in 1989, three percent of forecast expenditures. However, additional police and military expenditures related to the Intifada, lower than expected receipts due to the general economic slowdown, and higher than forecast unemployment and inflation figures threaten to push the budget deficit to the NIS five billion level (to 6 percent of GDP). The Government has financed this deficit primarily by selling government bonds, which in turn has aggravated the "crowding out" effect in the capital markets.

The basic thrust of monetary policy has been to reduce short-term interest rates. Yet, interest rates continue to come under upward pressure from increased Treasury borrowing to finance the deficit. The Central Bank has sought to keep interest rates in line through weekly tenders of credit to commercial banks. Government policy has reduced the reserve ratio on indexed saving schemes and shortened the minimum length of indexed credit from two years to one year as a means to put more financial resources at the disposal of the business sector.

2. Exchange Rate Policies

As part of the 1985 economic stabilization program, the Government linked the shekel to a basket of currencies (dollar, deutschemark, pound sterling, yen, and franc). The shekel exchange rate remained effectively frozen between the beginning of 1987 and the end of 1988. Government exchange rate policy has evolved toward a more flexible regime incorporating more frequent devaluations. A six-point band allows for a three percent fluctuation above and below the basket rate. Three devaluations, totalling close to 20 percent, have occurred since December 1988. The devaluations have helped the export sector regain profitability, as reflected in improved export performance through 1989. Although the shekel has lost value against the dollar, Israel remains an attractive market for U.S. exports.

3. Structural Policies

The Government controls approximately 25 percent of all retail prices, mainly in the areas of health, education, and basic foodstuffs, and for products of monopolies, cartels, and utilities. Prices are periodically raised in line with increase in production costs and inflation. Over the past year, prices of these items have risen faster than those of non-controlled goods and services.

Wage indexation has spared public sector Israeli workers the full brunt of relatively high inflation rates. The public sector wage contracts for 1988/89 and 1989/90 signed on August 11, 1988, stipulated a retroactive increase (from June 1988) of five percent the first year and six percent the second year. Private sector wage agreements, however, have not specified rate increases, allowing for wage determinations to be made at the enterprise level on the basis of performance, profitability, inflationary expectations, and industrial relations.

The cost of living allowance agreement (COLA) concluded by the Government, the General Federation of Labor (Histradrut), and employers in February 1989 aims to protect real wages without fueling inflation. Biannual adjustments compensate for 85 percent of monthly inflation beyond 0.5 percent (3 percent in a half year). The COLA scheme means that wage increases will be at least six percent less than the rate of inflation but also provides for considerable flexibility for wage determination at the enterprise level.

Efforts to broaden the tax base and lower tax rates have been stymied by two major factors: the fall in tax receipts in a stagnant economy, especially from indirect sources such as import duties and the value-added tax, and disagreement between the Treasury and Histradrut over some recommended reforms particularly in regard to the elimination of special exemptions. The Government in fact introduced a two percent surcharge on the highest income tax bracket and added exemptions for certain training and vacation funds in 1989. On the other hand, the Government has begun to reduce corporate marginal tax rates.

Against a backdrop of high prevailing interest rates, the Government has undertaken capital market reforms aimed at introducing more competition into the banking system and reducing the role of the Government in the markets. For example, bank liquidity requirements on free foreign currency accounts held by exporters, new immigrants, and foreign residents have been eased. Foreign investors have gained the right to repatriate debentures traded on the Tel Aviv Stock Exchange. As a result, the cost of capital has declined and restrictions on capital movements between the Israeli and international financial markets have been eased.

The percentage of private investment financed by issues of stocks and bonds has increased. The Government is, however, able to issue essentially risk-free bonds linked to the price index at yield rates which private issues cannot match. More generally, the large government presence in the capital markets (to finance/recycle its debt) will continue to crowd out private investment.

The Government is moving to sell off its shares in major Israeli banks as a means of making the banking system more competitive. At the same time, the Government would like to restrict commercial bank participation in capital markets in order to prevent a conflict of interest.

4. Debt Management Policies

In 1988 gross external debt was reduced by $0.9 billion to $24.5 billion. The 1988 total foreign debt was equal to 62 percent of GDP. This represents a marked improvement over the corresponding 85 percent figure at the start of the debt crisis in 1982. Israel does not participate in adjustment programs of the international financial institution or the Paris Club rescheduling process.

The distribution of total year-end 1988 foreign debt by sectors is as follows: $16.6 billion owed by the government sector; $4.5 billion owed by the non-financial private sector; and $3.3 million by the banking sector. Israeli Government debt to the U.S. Government decreased due to the extension of U.S. loan guarantees to cover 90 percent of the refinancing of earlier high interest loans. In 1988, the Government converted $4.8 billion worth of high interest debt on its U.S. Foreign Military Sales (FMS) account into lower interest negotiable bonds. Of total official Israeli debt at the end of 1989, 33 percent was owed to the U.S. Government, 9 percent to other governments and international institutions, 29 percent to private holders of negotiable bonds, 26 percent to holders of Israeli bonds, and 4 percent to commercial banks.

5. Significant Barriers to U.S. Exports and Investment

Most basic food commodities, raw materials, and machinery for industry and agriculture enter Israel duty free. There are, however, variable levies on food and agricultural commodities which are designed to bring the price of imported items up to the cost of locally-produced goods. A licensing system also limits the import of U.S. products. Where there are duties, they are generally less than 20 percent. Beginning January 1, 1989, under the Israeli-EC Free Trade Area Agreement (FTA), manufactures from the European Community enter duty free. Duties on most products imported from the United States have been eliminated or reduced under the United States-Israel Free Trade Area Agreement.

Israel applies taxes and surcharges on imports. A two percent import levy, the "Peace of Galilee" tax, was imposed in 1982 and has been renewed annually. A value-added tax (VAT) is charged on most goods and services sold in Israel, including imports. A variable purchases tax is levied on the wholesale price of primarily luxury and consumer items.

Quantitative import restrictions are not a major barrier. Plywood is the only product on which the United States agreed to a quantitative restriction in its FTA with

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Israel. Many products are required to meet standards, usually to protect public health, safety, or the environment, or to conserve scarce resources and to assure compliance with Kashrut (dietary laws). A few items cannot be imported.

Israel maintains a 37-page list of items which require a license before they can be imported. Under the FTA, Israel dropped the licensing requirement for many U.S. products and theoretically grants licenses automatically for all remaining categories of goods except foodstuffs. However,, there have been instances in which Israel has effectively refused licenses to importers of U.S. products by discouraging license application, through delays, and by other means. A new set of procedures was agreed upon in June 1989, but has not yet been implemented.

Israel applies the Brussels definition of value (BDV) when assessing the value of imports. The BDV tolerates such practices as arbitrary uplifts of invoice prices. Israel uses uplifts to determine the import price of products on which it charges the purchase tax. The price of the import (CIF value plus customs duty) plus any arbitrary uplift is raised by the TAMA (acronym for the Hebrew words "additional rate of increase"), according to a formula which accounts for the expenditures and profits of the importer and the wholesaler. The United States and Israel have continued to discuss the uplift and TAMA practices. Agreement was reached to limit the use of TAMA to small importers. Until January 1, 1995, large firms will have the option of using TAMA or actual wholesale price. After 1995, only actual wholesale price will be used. The TAMA agreement, which requires Knesset approval, has not yet been implemented.

In Israel, the designation "standard" is restricted by the Standards Act to a document prepared by the Standards Institute of Israel, according to procedures outlined in "Rules for Preparation of Israeli Standards." In theory, a standard is prepared by the responsible Ministry in collaboration with all interested parties to achieve the best balance between technical and economic requirements and between the interest of manufacturers and consumers. However, in some cases, the standards are written in such a way that only domestic products can easily meet the requirements. Both Israeli importers of U.S. products and U.S. manufacturers have complained that such standards limit U.S. exports. Some cases have been resolved, but incidents of Israel's restriction of imports through application of such standards recur. Over the years, many Israeli standards became mandatory for imported articles only, whereas for domestically-produced products they are voluntary. The Israeli Government has agreed to a schedule under which this practice will be phased out by 1991.

The Law for the Encouragement of Capital Investment (1959), the Encouragement of Industry Law (1969), and the Encouragement of Capital Research and Development Law (1984) concern domestic and foreign investment in Israel. Although Israeli policy favors industries producing for export or import substitution and science-based industries, this policy is not a major barrier to investment in or trade with Israel. Israel's small market, its recent economic problems, the Arab Boycott, and a tendency to change its laws frequently and apply them retroactively have been more effective disincentives to foreign investment in Israel.

Israel encourages foreign investment with a system of incentives favoring the development of export industries and development areas outside the industrial coastal region. The incentives include: cash grants, low-interest loans, cost-sharing for research and development, low-cost rentals, and leasing for industrial buildings, machinery, and equipment, tax reductions, and accelerated depreciation.

There are no restrictions on foreign ownership, except that the foreign entity must be registered in Israel. Residents of foreign countries may own property in Israel if they receive necessary approval, which is normally not an obstacle. Subsurface mineral resources remain the property of the Government, which is authorized to license exploration and exploitation rights for specified periods in specified areas.

Trade in services in Israel is strictly regulated, but restrictions are primarily for security (in the case of telecommunications) and balance-of-payments reasons or to prevent capital flight. The telecommunications company is government-owned. The United States and Israel are holding talks under the FTA to liberalize trade in services.

Many of Israeli's largest companies are owned by the Government. Many other large firms are part of Koor Industries, Inc., a holding company owned by the General Federation of Labor (Histradrut). Government-owned companies include Israel Aircraft Industries, the Dead Sea Works, Haifa Chemicals, and the Petroleum Refining and Utilities Companies.

The Israeli Government requires offsets for purchases by government departments, wholly-owned government companies, and government entities. The supplier must make a best effort to achieve "industrial cooperation" by investment, co-development, co-production, subcontracting, or purchasing, from Israeli industry. The latter is preferred. No penalty is imposed for failure to fulfill the industrial cooperation agreements, but the foreign company not doing so usually does not get another contract. Israel agreed to waive the offset requirement for Code-covered purchases when it signed the Government Procurement Code. Under the FTA, Israel relaxed offset requirements on civilian purchases from U.S. firms.

Israel acceded to the GATT Government Procurement Code in 1983, later than most signatory countries. Its implementation of the Code has been weak due to the lack of an efficient system for the timely publication of tenders and severe budget cuts in government spending. The number of tender notices received by the U.S. Government has increased considerably in 1989 and in a majority of cases the requirement for 40 days advance notice was met. Between 1985 and 1988 an average of four to five tenders per year were submitted to Washington.

ISRAEL

In the first nine months of 1989 the number of tenders issued by Code-covered agencies was eleven. Despite this improvement, a significant increase in the number of tenders is not expected.

In December 1987, the United States and Israel signed a Memorandum of Understanding concerning mutual cooperation in research and development, logistic support of defense equipment, and military procurement. At present, there is a trade surplus in Israel's favor. In the past year, Israeli companies have sold goods and services worth about $300 million to the U.S. Department of Defense, versus $24 million worth sold by U.S. companies to the Israeli Defense Ministry.

5. Export Subsidies Policies

In 1985, Israel signed the GATT Subsidies Code. Israel provides export credits, but they must be denominated in U.S. dollars and are charged interest of two percent over LIBOR. An exchange rate insurance scheme currently benefits exports by about 8 percent on the FOB value of merchandise. The exchange rate insurance scheme and Israeli Government loans and grants to encourage investment have resulted in U.S. countervailing duty orders on imports of Israeli cut roses, oil country tubular goods (OCTG) and industrial phosphoric acid.

7. Protection of U.S. Intellectual Property

Israel has laws governing the protection of patents, trademarks, and copyrights, and is a member of the Paris Convention for the Protection of Industrial Property and the Berne and Universal Copyright Conventions.

There have been complaints of Israeli violations of intellectual property rights with respect to music and video cassettes and infringement by Israeli companies of copyrighted software.

The Israeli Government has taken some steps to control copyright infringement of U.S. movies and videos. The U.S. motion picture industry claims the most widespread and harmful form of infringing copyright activity in Israel is pirating of cable systems, which have been installed in housing blocks throughout the country.

8. Worker Rights *

a. The Right of Association

Israeli workers have freely established organizations of their own choosing. About 80 percent of employed Israelis (including 70 percent of employed Arab Israelis) are members of the General Federation of Labor (Histadrut) or otherwise covered by Histradrut collective bargaining agreements.

Palestinian residents of Jerusalem have the same rights of labor association.

Approximately 110,000 non-resident workers (primarily Palestinian from the West Bank and Gaza) are employed in Israel. These workers may not join Histadrut or other independent unions, but, if employed in the organized sector, are entitled to union representation and are covered by current collective bargaining agreements at their work place.

b. The Right to Organize and Bargain Collectively

The right of Israelis to organize and bargain collectively is enshrined in law and freely exercised. The majority union (generally Histadrut) is the exclusive bargaining agent. Palestinian residents of Jerusalem have the same rights under Israeli law. Non-resident workers may not organize and bargain collectively on their own, but they are entitled to the protection of collective bargaining agreements and representation by the bargaining agent. A sizable minority works without protection in the unorganized sector such as in seasonal agriculture, light construction, etc.

Labor legislation is applied uniformly. There are no export processing zones in Israel.

c. Prohibition of Forced or Compulsory Labor

Israeli citizens are not subject to forced or compulsory labor.

d. Minimum Age for Employment of Children

By law, children under 15 may not be employed. Those over 15 may not be employed if subject to compulsory education, except during vacations, or in apprenticeships, or with a Labor Ministry permit. Employment of children 16-18 is restricted. A Labor Inspection Service enforces these provisions, but enforcement may be lax in smaller, unorganized enterprises. Israeli labor exchanges in the West Bank and Gaza will not process Palestinians under 17.

e. Acceptable Conditions of Work

The minimum wage is set at 45 percent of the average wage. Most wages and salaries are established in collective bargaining agreements.

Approximately 30 percent of the 110,000 non-resident Palestinians working in Israel work legally, meaning that they are processed by Israeli Employment Service Labor Exchanges in the West Bank and Gaza. Legally hired non-resident workers are covered by the minimum wage law and by the system of social benefits stipulated in collective bargaining agreements. However, non-resident workers do not receive the same benefits from the National Insurance Institute (NII, similar to U.S. Social Security) because many NII benefits have residency requirements. Under the NII scheme, non-resident workers receive workers' compensation and maternity benefits but are not eligible for NII old age, survivors, and disability pensions, unemployment compensation, children's allowances, welfare programs, or insurance for long-term care or injury in non-occupational accidents.

Non-resident Palestinian workers in Israel who bypass the Labor Exchange system lose social benefits but also avoid paying taxes and social contributions. Their wages and working conditions, especially in the unorganized sectors, are often below Israeli legal standards. Additionally, factors such as entry permits (for Gaza workers), general strikes and violence related to the Intifada, and Israeli-imposed curfews have depressed the average hours worked by day laborers.

f. Rights in Sectors with U.S. Investment

U.S. direct investment is concentrated in the electric and electronic equipment sector (computers, electronic components and software), where the degree of union organization and collective bargaining is less than in other sectors. Employers are often willing to provide higher pay than union scale, to retain management flexibility and avoid collective bargaining. Although all worker rights criteria are also guaranteed in sectors with U.S. investment, employees often choose not to exercise the right to organize and bargain collectively in the electric and electronic equipment sector.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		58
Total Manufacturing		228
Food & Kindred Products	0	
Chemicals & Allied Products	24	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	172	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		286

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

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* Section 8 is an abridged version of Section 6 of the Israel country report included in the Department of State's *Country Reports on Human Rights Practices for 1989*, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

JORDAN

Key Economic Indicators

(Millions of Jordanian dinars (JD) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, and Employment			
Nominal GNP (market prices)	1,868	1,866	2,160
Nominal GDP (market prices)	1,686	1,703	1,194
Real GNP growth rate (pct)	-1.7	-4.0	1.0
Real GDP growth rate (pct)	3.2	-3.5	n/a
GNP by sector			
Agriculture	127	140	170
Mining	66	68	80
Manufacturing	187	176	252
Water/electricity	45	42	42
Construction	101	81	65
Trade	236	245	300
Transport/communications	161	159	159
Business services	172	172	180
Government services	309	320	350
Social/personal services	13	14.9	n/a
Non-profit institutions	25	26	n/a
Household services	6	6	n/a
Real per capita GNP (JDs)	646	584	590
Domestic labor force (000s)	556	572	590
Money and Prices			
Money supply (M1)	980	1167	1367
Commercial interest rates (pct)			
Time deposits	7.5	8.5	8.75
Savings deposits	5.5	5.5	5.5
Loans	7.5-12	10-12	10-12
Savings rate (pct of GNP)	7.0	6.0	8.0
Investment rate (pct of GNP)	24.0	24.0	24.0
Consumer price index (1986 = 100)	99.7	102.9	130.0
Wholesale price index (1979 = 100)	139.7	152.8	190.0
Exchange rate average ($/JD)	2.95	2.66	1.80
Balance of Payments and Trade (mils $)			
Total exports (excl re-exports)	734	866	936
Exports to U.S.	2.7	3.2	6.5
Total imports CIF	2,701	2,719	2,612
Imports from U.S.	274.3	343	266.4
Aid from U.S.	111	18	42
Aid from others	498	607	372
External public debt 1/	3,676	7,982	8,244
Debt service payments	734	861	1,263
Gross offcial reserves (excl gold)	422.8	109.5	207.8
Gold reserves	194	178	119
Overall balance of payments	-51	-487	-632

1/ 1987 figure excludes military debt and debts incurred for oil purchases; it is not comparable to 1988 and 1989 figures, which include all medium- and long-term government debt.

JORDAN

1. General Policy Framework

From 1974 through the early 1980s, Jordan's GNP grew by 10 to 12 percent annually, fueled by the regional oil boom in the Gulf. However, as the price of oil tumbled in the mid-1980s and the Gulf was plunged into recession, GNP growth in Jordan was brought to a near standstill. In response, the Government of Jordan undertook measures to cushion the effects of the economic downturn. Reversing its previous policy of fiscal restraint, the Government pumped money into infrastructural development. Similarly, monetary policy was expansionary, as reserve requirements and interest rate ceilings were reduced to facilitate financing.

These measures did not succeed in either reviving the economy or absorbing new entrants into the Jordanian labor force. Real GNP growth was negative in 1987 and 1988, and per capita income continued to fall. The private sector has remained cautious in the face of a restrictive investment climate. At JD 177 million, private investment in 1988 was less than half the level achieved in 1982 at the height of the boom. Moreover, as a direct result of the Government's efforts to revive the economy through expansionary policies, the budget deficit rose from 5 percent of GDP in 1983 to 16 percent (including grants) in 1988, forcing the Government to borrow both at home and abroad and to draw down foreign exchange reserves.

By mid-1988 reserves had fallen to the point where the Government could finance only two weeks of imports. This prompted the Government to impose measures to stem the flight of capital, including currency restrictions, a "managed float" of the dinar and a one-year ban on luxury imports. Nonetheless, the Jordanian dinar (JD) continued to lose ground and by August 1989, hit bottom at approximately $1.15 to the dinar versus $3.00 to the dinar 18 months earlier. By October however, the dinarad recovered some lost ground and appeared to be stabilizing at around $1.46 to the dinar.

Faced with mounting debt service on civilian and military obligations, the Government signed a standby arrangement with the IMF in April 1989. Compliance with the Fund's medium-term adjustment program will allow the Government to draw down $125 million over an eighteen-month period. Drawdowns will be contingent on the Government's ability to reduce its budget deficit, reduce inflation, increase savings and investment, contain monetary expansion and promote exports and private remittances. Over the medium term, debt service will remain a problem, with rescheduling required for at least the next four years. In view of Jordan's current economic difficulties, both the public and private sectors face significant challenges. Economic growth will depend not only on effective government policies to stimulate private sector growth, but also on the ability of private entrepreneurs to capitalize on potential new export opportunities created by the depreciation of the dinar. Such opportunities, if they materialize, could eventually translate into increased orders for U.S. raw material inputs or U.S.-made machinery.

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2. Exchange Rate Policies

For years, the Jordanian dinar was tied within a band to a SDR-weighted basket. The institutional framework consisted of a formal banking system and a parallel market centered among moneychangers and the foreign exchange units of commercial banks. Beginning in 1987, the Central Bank shifted the weight of the currency basket toward the U.S. dollar. Nevertheless, in trade-weighted terms, the dinar continued to be "over-valued" when compared to other regional currencies. The policy of the Central Bank was oriented toward maintaining a stable rate in order to encourage savings and remittance flows from expatriates in the Gulf. To support this "flexible" fixed rate regime, the Central Bank provided the formal banking system shortfalls in foreign exchange to cover import letters of credit and other authorized transactions.

By mid-1988, the fixed rate regime had come under heavy pressure as foreign exchange reserves reached unprecedented lows. The Central Bank responded in October 1988 by cutting the dinar from its fixed rate moorings and announcing a "managed float" of the currency. The Bank retained the authority to intervene in the market as necessary to ease the transition from a fixed to a floating rate regime. Despite the Bank's intervention, the currency float spawned a widespread black market for hard currencies, prompting the Government to close down the moneychangers in April 1989. The move did not eliminate the black market, and in a further attempt to stabilize the currency, the Government announced a "two-tier" exchange system at the beginning of August. Under this system an "official" Bank exchange rate was applied for the purchase of "strategic" commodities (wheat, rice, corn, frozen meat, etc.) and a second "prevailing market" rate was applied to all other purchases.

Bank policy calls for a unification of the two rates sometime in 1990, at which time the Bank predicts a drying up of the black market. In the course of the past 18 months, the dinar has lost about 50 percent of its value against the U.S. dollar. While the fall in the JD hurts the competitiveness of U.S. products, the impact is buffered by the fact that approximately 50 percent of Jordan's U.S. imports consist of basic food staples, spare parts and specialized equipment and machinery These items will likely continue to be imported from the United States as neither import substitutes nor alternate suppliers are readily available.

3. Structural Policies

Market forces are generally allowed to set prices. Exceptions include (1) basic foodstuffs such as cereals, sugar and chilled meat which are imported by the Government and sold at subsidized prices; and (2) some fifteen essential consumer items on which the Government has set maximum price ceilings. The sharp rise in 1989 in international foodgrain prices is likely to mean continued subsidies for basic foodstuffs. The Government committed more than JD60 million to the food subsidies program in 1988, and the figure went higher in 1989.

Taxes on imports comprise the chief source of domestic revenue. The tariff rate in 1988 averaged 26 percent but there is considerable variation around the average, reflecting low taxation of raw materials and machinery for local manufactures, and high tariffs on consumer durables and luxuries. The maximum marginal income tax rate for all businesses except banks is 40 percent, while the marginal tax rate on individual income is capped at 45 percent, with large personal, educational and medical deductions. Except for financial institutions, interest, dividend and capital gains earnings are exempt from taxation; also income derived from agriculture is exempt. Eligible investments benefit from internationally competitive tax holidays and import tax exemptions.

The Government is currently studying revisions to the tax policy to increase revenues and provide greater incentives for private sector investment. In August 1988, requirements for industrial licensing were streamlined, resulting in a rapid increase in new business registrations. However, many of the new registrants have been reluctant to invest capital, preferring instead to wait on the sidelines until economic indicators turn more favorable. According to official estimates, only about 10 percent of the new registrants have actually invested capital. Chamber of Commerce officials are hopeful that new investment will pick up as the dinar stabilizes and confidence in the economy is restored.

4. Debt Management Policies

Jordan's external debt (including military debt) increased sharply in the 1980s as the country borrowed heavily from commercial lenders to finance both physical and social infrastructure development. By the end of 1988 external debt stood at approximately $8.2 billion, most of it medium- and long-term government or government-guaranteed debt. Debt service payments as a percent of exports of goods and services have soared and are expected to reach 36 percent in 1989, or about 5 times the debt service ratio in 1983 when commercial borrowings began to substitute for external grants.

On the basis of the $8.2 billion in debt outstanding at the end of 1988, Jordan was facing scheduled annual debt service payments of $0.9-1.2 billion over the 1989-1994 period. In March 1989, the Government signed a standby arrangement with the IMF, setting the stage for a general rescheduling of foreign official debt through the Paris Club. Paris Club rescheduling will be complemented by rescheduling of commercial debt through the London Club of commercial banks.

Although the standby agreement covers only 18 months, the IMF medium-term adjustment program extends from 1989 through 1993. Its major objectives include the encouragement of export-driven economic growth, a lowering of the inflation rate and the elimination of the external current account deficit. Compliance with the IMF's medium-term adjustment program will allow the Government to draw down $125 million in IMF resources between July 1, 1989 and December 31, 1990. Drawdowns will be contingent on the Government's compliance with "performance criteria" covering ceilings on net domestic assets of the banking system, ceilings on public sector credit and limits on new non-concessional external borrowing.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: Import licenses are required on virtually all imports and are usually granted within a day of payment of a license fee amounting to 5 percent of the value of the commodity to be imported. As a practical matter, the import license has not been used as a vehicle to restrict U.S. products from the Jordanian market. The government ban on luxury goods, which went into effect November 6, 1988 and was lifted, effective January 1, 1990, has also had relatively little impact on U.S. imports, as these items comprised only about 3 percent of the total value of U.S. imports in 1987.

Services Barriers: Foreign transportation companies, including courier services, operate freely in Jordan under normal investment and currency procedures. This also holds true for financial services, including banking and insurance. Foreign and domestic banks are required to meet minimum capital requirements to operate branches in Jordan. Foreign professionals must obtain a work permit from the Ministry of Labor subject to the approval of the relevant professional association, and a residence permit from the Ministry of Interior.

Tariff Schedules on Automobiles: Government tariff policies aim to discourage demand for luxury automobiles by imposing a uniform tariff based on vehicle weight and a progressive tariff based on engine displacement. U.S. vehicles, with generally heavier weights and bigger engines, are affected disproportionately, compared, for example, to Japanese and European compact vehicles. Under tariff schedules which became effective in October 1988, a tariff of 600 fils per kilogram is assessed on passenger vehicles, in addition to the following progressive tariffs based on engine displacements:

Engine displacement (cc)	Tariff (percent)
Up to 1500	120
1501-2000	120
2001-2500	170
2501-3000	200
Above 3000	290

Investment Barriers: No restriction is placed on the degree of foreign ownership in manufacturing, hotels and restaurants, and banking. However, foreigners may not own more than 49 percent of enterprises engaged in other commercial activity, such as trading. Moreover, Defense Regulation No. 51 (Control of Foreign Business Activities) states that no foreign person may conduct any commercial activity without the written approval of the Prime Minister. Once obtained, this written approval can be cancelled by the Prime Minister at any time. Moreover, under the Encouragement of Investment Law, applications for tax holidays and customs exemptions are reviewed on a case-by-case basis against broad criteria. Investors frequently do not know what benefits will be granted until a commitment to invest is made. While benefits such as duty free import of personal vehicles and office furniture can be subject to limitations, in practice U.S. business representatives have encountered few problems.

Customs Procedures: In 1989 the Government increased tariffs on a wide variety of imported luxury goods and consumer durables. The intent was to compress imports and to stimulate the production of import substitutes. At the same time, the Government reduced tariffs on raw materials, machinery and semi-finished goods to stimulate export production. While statistics are not yet available to assess the effectiveness of these changes, the new tariff schedules have meant increased paperwork requirements to clear customs. For example, in order to secure tariff exemptions, businessmen must document that the raw materials to be imported will be used in an export product, containing at least 40 percent Jordanian value-added content. Such procedures are subject to review by the Ministry of Finance, which has been charged with streamlining customs procedures.

6. Export Subsidies Policies

Export earnings are exempt from corporate income tax in proportion to their share in total output. The maximum exemption is 30 percent of total income. Jordan's mining industries (phosphates, potash and fertilizer) are ineligible for this exemption, but benefit instead from rebates on fuel taxes to compensate for the high domestic cost of fuel relative to international prices. Bilateral credit arrangements with Iraq, and barter arrangements, notably with Egypt, are also used to bolster Jordanian exports. Under currency regulations announced October 15, 1988, exporters may hold up to 50 percent of foreign exchange earnings to finance the cost of imported raw material inputs. These inputs are given preferential customs treatment, provided that the exporter can document at least 40 percent value-added content.

7. Protection of U.S. Intellectual Property

Although Jordan is a member of the World Intellectual Property Organization and a signatory to the Paris Convention for the Protection of Industrial Property, no specific Jordanian laws or regulations exist at present to protect foreign intellectual property, although the need for such protection has been long recognized by foreign manufacturers. Consequently, infringement of U.S. intellectual property rights is not subject to any controls in Jordan. While the extent of intellectual property rights abuse is difficult to quantify, patent and copyright infringement are fairly pervasive.

Copyrights: One practice of concern is the unauthorized reproduction of audio and video tapes. For a small fee, a customer can rent or buy a copy of a wide selection of popular American films. While the copies are frequently of inferior quality, this does not seem to discourage the consumer, as evidenced by the proliferation of vendors. Pirating of audio and video tapes for commercial purposes is a widespread practice, over which the Government exercises no control. There are also reports of pirated books which are sold in Jordan, but no indication that the books are actually being reproduced within the country.

Trademarks and Patents: Trademarks must be registered at the Ministry of Industry and Trade in accordance with Law Number 33 of 1952 in order to receive protection. Registration may be renewed once, for a period of 14 years. The Law does not provide protection for foreign trademarks. Like the Trademark Law, the Patent Law applies more to domestic interests and has not been legally tested for foreign patents, with the exception of pharmaceutical products, where a ruling is still pending in the Jordanian Supreme Court. At present, patented foreign pharmaceuticals are not protected because of a Jordanian decree intended to protect Jordan's local pharmaceutical industry. Pharmaceutical Provisional Law Number 8 of 1986, enacted by decree but not yet adopted by Parliament, allows Jordanians to manufacture chemical compounds currently under foreign patent protection, as long as there is no infringement on the manufacturing process itself. The decree provides no compensation to the foreign patent holder.

The quantitative impact of Jordan's intellectual property rights practices on U.S. trade is difficult to determine. In 1988, pharmaceuticals were one of the fastest growing sectors in the Jordanian economy, accounting for approximately $50 million in exports. Most of the pharmaceuticals are manufactured in Jordan, some under license with U.S. and European manufacturers, and others under the auspices of the Jordanian pharmaceutical decree. In other areas involving new technologies, Jordan has been strictly a consumer, and there is no evidence of any infringements which could jeopardize future trade relations with the United States.

8. Worker Rights *

a. The Right of Association

While Jordanians are free to join labor unions, only about 10 percent of the Jordanian work force is unionized. Unions represent their members in such areas as wages, working conditions and worker layoffs. Nineteen unions comprise the Jordan Federation of Trade Unions (JFTU). The JFTU actively participates in international organizations such as the International Labor Organization.

b. The Right to Organize and Bargain Collectively

JFTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions and health and life insurance. If a union is unable to reach agreement with an employer, the issue is referred to the Ministry of Labor for arbitration. If the Ministry fails to act within two weeks after receiving a union complaint, the union can then strike. In fact, union-employer-government relations are generally tranquil, so arbitration is rarely required.

c. Prohibition of Forced or Compulsory Labor:

Compulsory labor is forbidden by the Constitution and is not practiced.

d. Minimum Age of Employment of Children:

Children under 16 are not permitted to work except in the case of professional apprentices, who are allowed to leave the standard educational track and begin part-time (6 hours a day, no night shifts) training at age 13.

e. Acceptable Conditions of Work

Jordan's workers are protected by a comprehensive Labor Code, enforced by 30 full-time Ministry of Labor inspectors. The Government prepares and adjusts periodically a minimum wage schedule for various trades, based on recommendations of an advisory panel composed of representatives of workers, employers and the Government. Maximum working hours are 48 hours per week, with the exception of hotel, bar, restaurant and movie theater employees, who can work up to 54 hours. Jordan also has a Workers' Compensation Law and social security covers all companies with more than five employees.

f. Rights in Sectors with U.S. Investment

Worker rights do not differ from sector to sector of the economy. Additionally, Jordanian workers hired as employees within Jordan's Free Trade Zones, key areas for potential U.S. investment, enjoy the same rights and privileges as workers in any other sector of the economy.

JORDAN

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		0

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Jordan country report included in the Department of State's *Country Reports on Human Rights Practices for 1989*, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

MOROCCO

Key Economic Indicators

(Moroccan dirhams (Dh) unless otherwise stated)

	1987	1988	1989
Income, Production and Employment			
Real GDP (1980 base) (mils)	159,002	181,000	n/a
Real GDP growth rate (pct)	-2.9	10	n/a
GDP by sector (pct)			
Agriculture	15.1	17.9	n/a
Mining	2.8	3.0	n/a
Industry	18.0	17.5	n/a
Services	19.0	18.4	n/a
Commerce	22.0	20.8	n/a
Government	11.1	10/3	n/a
Real income per capita	6,802	7,555	n/a
Labor force (000s)	7,012	7,187	7,367
Unemployment rate (pct) 1/	14.7	13.0	n/a
Money and Prices			
Money supply (M1)(pct) 2/	9.7	14.7	9.8
Interest rates (annual pct) 3/			
Savings rates (pct)			
Small savers	9.0	9.0	9.0
Migrant workers	8.0	8.0	8.0
6-month treasury bonds	10.5	10.5	10.5
12-month treasury bonds	11.5	12.0	12.0
Lending rates (pct)			
Short-term	14.0	13.0	13.0
Long-term	16.0	14.0	14.0
Consumer price index (pct chg)	2.8	2.3	5.0
Wholesale price index (1977=100)	245.6	256.2	269.0
Exchange rate (Dh/$)	8.36	8.2	n/a
Balance of Payments and Trade (mils)			
Total exports FOB	23,390	29,569	n/a
Exports to U.S.	377	632	n/a
Total imports CIF	35,271	39,133	n/a
Imports from U.S.	3,218	2,722	n/a
Total aid from U.S. (mils $)	136.2	146.8	150.2
Debt service paid (mils $)	2,168	1,948	n/a
Forex reserves year-end (mils $)	407	547	n/a
Balance of payments			
Trade balance	8,933	6,164	n/a
Current account	1,371	3,756	n/a

1/ urban, annual average
2/ annual real growth rate
3/ annual nominal rates

MOROCCO

1. General Policy Framework

Morocco has an active free enterprise economic system in which the role of the state has been steadily reduced in recent years. Private property and private investment predominate in most areas of economic and commercial activity. Prospects for near-term expansion of U.S. exports are limited fundamentally by the country's lower-middle income status and its heavy foreign debt burden. In 1988, Morocco's external debt amounted to 118 percent of GNP as compared to an average of 61 percent for the 17 countries classified as "heavily indebted" by the World Bank.

Since 1983, Morocco has been engaged in a strenuous program of economic stabilization and reform in close cooperation with the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). Adjustment policies necessitated a sharp reduction in imports and public investment. In the past several years, U.S. market share of total imports has fluctuated between 6.0 and 12.5 percent, depending on changes in demand for U.S. agricultural products, principally cereal and feed grains and vegetable oils.

Good progress has been achieved in economic reforms, and performance has improved markedly in recent years. In 1987 Morocco posted its first current account surplus since 1973. The surplus continued in 1988, although an unexpectedly severe deterioration of Morocco's foreign trade performance, due largely to a decline in phosphate exports, precluded a third surplus in 1989. Inflation has been brought under five percent without resort to price or wage controls, domestic food subsidy programs have been reduced, and the foreign trade and foreign exchange regimes have been progressively liberalized. Morocco became a full member of the General Agreement on Trade and Tariffs (GATT) on June 15, 1987, and is playing an increasingly active role in the Uruguay Round negotiations.

Fiscal policy has been austere through the adjustment period. The overall annual budgetary deficit was reduced from around 12 percent of gross domestic product (GDP) in 1982 to 4.4 percent in 1988, although the deficit may rise slightly in 1989. Deficits have largely been financed by keeping domestic petroleum product prices well above world market levels, by introduction of an effective value-added tax (VAT) in 1986, and by issue of long-term treasury bonds.

Monetary policy has been similarly restrictive with annual domestic credit expansion reduced from 20 percent in 1983 to 7.7 percent and 9.1 percent in 1987 and 1988 respectively. The Government maintains effective control of the money supply through the use of bank credit ceilings. Public borrowing from the banking system has been reduced. Interest rates for both savers and borrowers have remained positive in real terms.

MOROCCO

2. Exchange Rate Policies

Since 1980 the Moroccan dirham has been pegged to a basket comprised of the currencies of the country's major trading partners. Depreciation of the dirham was relatively rapid from 1980 through 1985. Since then, exchange rates have been relatively stable. There are no parallel or multiple rates, and the discount on the dirham in the small black market in neighboring countries and on the local market is believed to be small. Weakening foreign trade performance in 1989 has raised anew the question of a possible further depreciation of the dirham, and some action may need to be taken in 1990.

The Government no longer requires advance approval of all foreign exchange transactions by the exchange office of the Ministry of Finance. The waiting time for access to hard currency at the Central Bank has fallen steadily in the past two years and is currently about four working days. Foreign investors are guaranteed the right to convert and export both net profits and original investment capital under Morocco's liberal foreign investment codes. The regulatory role of the exchange office has been steadily reduced with the ultimate goal of having it function solely as a collector of ex-post statistics on foreign exchange transactions.

3. Structural Policies

Morocco's tax reform program aims to create a simplified three-part tax structure to replace a complex system of import, excise, and special taxes inherited from the French colonial period. A uniform VAT system was introduced in April 1986. A revised corporate profits tax went into effect in January 1988, and a revenue positive personal income tax reform was approved by the Parliament during the spring 1989 session. The thrust of reforms is to reduce evasion, improve collection, and eventually eliminate the annual budgetary deficit currently running around five percent of GDP.

Morocco has steadily reduced its foreign and domestic debt service arrears in the past two years. In the second half of 1988, the Government made major progress in reducing its past-due debt to domestic suppliers, but some resurgence of arrearages was again noted in the second half of 1989. External foreign exchange arrearages were reduced from Special Drawing Rights (SDR) 378 million at the end of 1987 to almost nothing at the end of 1988. Final figures are not yet available for 1989, although weakening balance-of-payments performance has contributed to some increase over the course of 1989.

The Government presented a draft law on privatization of state-owned enterprises to Parliament in October 1988. The bill calls for transfer to the private sector of all of the estimated 680 wholly or partly-owned state enterprises, including the key phosphate industry, the electricity, potable water supply, telecommunications and railroad sectors and the national airline. The draft law includes provisions under which foreigners may be permitted to obtain equity shares in privatized enterprises. In October 1989, His Majesty King Hassan designated the Minister-delegate for Economic Affairs to oversee implementation of a privatization program when approved by the Parliament. The law remains under discussion in Parliament's Finance Commission.

4. Debt Management

Medium and long-term debt owed to foreign commercial banks and official creditors, including international financial institutions, amounted to $21 billion at the end of 1988. Debt-to-GDP ratios were high at 132.4 and 117.7 percent in 1987 and 1988, respectively, according to World Bank statistics. Morocco's post-rescheduling debt service ratios were 33.6 percent and 30.0 percent in the same two years.

External debt management policies have been prudent and effective since the onset of Morocco's debt squeeze in 1983. Relations with the IMF and World Bank have been positive and cooperative throughout the stabilization and adjustment period. While some economic performance targets of secondary importance under previous standby arrangements with the Fund have been missed, shortfalls have not led to major problems, and Morocco has adhered to the outlines of its economic reform strategy. This has been reflected in the willingness of the country's official and commercial creditors to agree to successive rescheduling on increasingly less restrictive terms.

Morocco is presently operating under a SDR 210 million standby arrangement with the IMF lasting through 1989. A $200 million structural adjustment loan with the World Bank was signed in December 1988. A new IMF medium-term program is to be implemented, to run to 1992. Official creditors in the Paris Club granted significant debt relief to Morocco in two agreements in March 1987 and October 1988. At the end of 1989, Morocco was in negotiations with its commercial bank creditors (the London Club) on a "Brady Plan" debt reduction program, to apply to Morocco's $3.2 billion outstanding commercial bank debt. The IMF and World Bank have indicated informally their willingness to support such a program.

As a traditionally important recipient of official development assistance from a broad range of bilateral and multilateral donors, Morocco's net financial flow position did not turn negative as quickly as a number of other major debtor countries with a higher percentage of commercial bank indebtedness. Nevertheless, net flows fell sharply in 1986, amounting to a net outflow of $100 million in that year, $5 million in 1987, and $740 million in 1988, according to World Bank data.

Prospects for a significant increase in imports of consumption and investment goods from the United States and other industrialized countries will remain limited as long as Morocco remains dependent on rescheduling to counterbalance foreign exchange outflows of this magnitude.

MOROCCO

5. Significant Barriers to U.S. Exports and Investment

Morocco has undertaken a progressive liberalization of its international trade over the past five years. Only 10 percent of total imports still require import licenses. When first implemented in 1967, the licensing program was designed primarily to protect local production from foreign competition and to promote import substitution. A secondary concern was to regulate the import of luxury goods. In the course of trade liberalization, many items have been removed from the licensing list, and there are no longer any items prohibited outright. Annual reductions in the list of goods requiring licenses are made by the Government in consultation with representatives of affected industries.

While many bulk agricultural commodities no longer require an import license, purchases are made through government agencies or monopolies for politically sensitive items such as wheat, feed grains, vegetable oils, tobacco, sugar and tea. In addition, certain imported commodities such as corn are subject to a variable levy. Licenses still are required for livestock, most fresh fruits and vegetables, pulses, plant and animal genetic materials, protein meals, and many processed food products.

Another barrier to greater export of U.S.-origin services to Morocco arises from the 1973 "Moroccanization" Law stipulating that certain economic sectors would be at least 50 percent Moroccan-owned with controlling Moroccan interest on boards of directors and fixed amounts of local labor. Sectors affected include: insurance, banking, public relations, travel agencies, leasing, road transportation of merchandise (except petroleum and mineral products), passenger transport, maritime transport agencies, and cinemas. In recent years, the Government has gradually begun to back away from the tenets of "Moroccanization," and the Law may be revised soon. Recent moves toward establishment of free trade zones, where companies would have exemption from "Moroccanization," if realized, would also serve to mitigate the trade restrictive impact of the 1973 "Moroccanization" Law.

6. Export Subsidies Policies

Morocco subsidizes exports through a program to provide relatively inexpensive, short-term credit for exporters' operating costs. The subsidized rate is currently three percent less than regular short-term credit lines from the commercial banks. This facility is subject to Central Bank review, and a limited credit level is authorized for each enterprise. Exporters may also apply for a government loan to cover the cost of participation in a recognized international trade fair. This loan automatically becomes a grant unless sufficient business orders are generated directly from the fair. Exporters may import raw materials and other inputs duty free, or they may apply for "drawback" of import duty on production inputs, including energy products. The Government maintains an export industry investment code which provides up to five years' tax holiday on 50 percent of profits for qualified Moroccan and foreign investors.

7. Protection of U.S. Intellectual Property

Morocco is a member of the World Intellectual Property Organization and is a party to the Berne Copyright, Paris Industrial Property, and Universal Copyright Conventions, the Brussels Satellite Convention, and the Madrid, Nice, and The Hague Agreements for the Protection of Intellectual Property.

Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property, although a quirk from the era of the protectorate, requires patent applications for industrial property to be filed in both Casablanca and Tangier for complete protection. Enforcement of trademark protection, in particular, is lacking. Counterfeiting of clothing, other wearing apparel, and luggage trademarks is widespread.

8. Worker Rights *

a. The Right of Association

The Constitution grants workers the right to organize and join trade unions throughout the country, including the free trade zone in Tangier. This right is exercised widely but not universally. Three of the 13 or so existing trade union federations dominate the labor scene; each has a democratically-elected leadership and functions independently of the Government.

Unions in Morocco have the right to strike and did so often in 1988-89. Most of the work stoppages were intended to advertise grievances and lasted 24 hours or less. One coal mine strike, however, lasted nearly two months.

Unions in Morocco belong to regional labor organizations and maintain contacts with international trade secretariats. They also attend and participate in the annual conference of the International Labor Organization (ILO). In all, about one million of Morocco's 7.5 million workers are organized.

b. The Right to Organize and Bargain Collectively

The Constitution also provides for the right to organize and bargain collectively. The multiplicity of trade union federations creates competition to organize workers. Any group of eight workers can organize, and it is very easy for a worker to change trade union affiliation. Thus, a single factory may contain several independent locals or locals affiliated with more than one labor federation.

In the informal and underground economies, especially the recently burgeoning textile sector, and in the artisanal field, laws and regulations are less well observed and sometimes ignored entirely. In part, the state of the economy, with widespread youth unemployment, hinders protection of the organization and collective bargaining process. Workers understand that replacements are available should they be fired for organizing and bargaining activity. On the other hand, workers face no barriers in making complaints to Moroccan authorities or the ILO.

Despite constitutional protection, unions complain regularly that employers suspend or dismiss their members for trade union activity without penalty, although the law entails fines or imprisonment for some labor law violations. Labor inspectors, who under Moroccan law serve as investigator, judge and jury, carry heavy workloads. Increasingly, workers have turned to the courts for resolution of complaints.

c. Prohibition of Forced or Compulsory Labor

Morocco has ratified the ILO convention against forced labor. As stated above, labor inspectors are unable to scrutinize all employers, especially those in the underground economy.

d. Minimum Age for Employment of Children

Under Moroccan law, children cannot be employed or apprenticed before age 12. Special regulations govern the employment of children between 12 and 16. In artisanal work, however, children are often apprenticed before age 12.

Safety and health conditions as well as salaries in enterprises employing children often are substandard. In 1989, Moroccan and international sources highlighted abuses of minors in the rug-making industry. Labor inspectors have difficulty enforcing child labor laws.

e. Acceptable Conditions of Work

The minimum industrial wage was raised in May 1989 by ten percent to about 56 cents an hour. Many workers in industry, however, do not receive the minimum wage. Agricultural workers also received a ten percent increase in May 1989 to about $2.90 per day. Most industrial workers in the modern sector earn more than the minimum wage. Moroccan law provides a 48-hour maximum workweek (no more than 10 hours per day), premium pay for overtime, paid holidays, and minimum conditions for safety and health, including prohibition of night work for women and minors. These regulations and laws are observed unevenly and have little meaning in the informal sector. Labor inspectors endeavor to monitor working conditions, but lack sufficient resources and authority to investigate and assure compliance with the law.

f. Rights in Sectors with U.S. Investment

U.S. private investment in Moroccan industry is small in comparison with indigenous and French investment. "Other manufacturing" constitutes its major component. U.S.

companies in Morocco, nearly all of which have local partners, maintain high standards in regard to worker rights and thus encounter few labor problems. At a unionized U.S. firm, one of two tire manufacturers in Morocco supplying an estimated 55 to 65 percent of the local tire market, a dispute arose in 1989 over efforts of one trade union federation to take over representation of workers from another federation. The dispute lead to a strike of several weeks and necessitated the intervention of local government authorities to try to resolve the conflict.

Those firms which are non-unionized also provide good salaries, benefits and working conditions. One non-unionized firm, the primary producer of razors in Morocco, employs 140 workers with virtually no turnover.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		11
Total Manufacturing		(D)
Food & Kindred Products	2	
Chemicals & Allied Products	(*)	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Morocco country report included in the Department of State's _Country Reports on Human Rights Practices for 1989_, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

PAKISTAN

Key Economic Indicators

(Millions of Pakistani rupees (PR) unless otherwise noted)

	1/ FY86/87	87/88	FY88/89 (est)
Income, Production, and Employment			
GDP (PR mils) 2/	608,145	670,900	774,100
GDP by sector (pct of GDP)			
Agriculture	25.0	21.0	23.8
Manufacturing	21.0	17.5	17.3
Services	7.9	10.1	9.3
Real GDP growth rate	5.7	5.8	5.1
Real GNP per capita	369	379	386
Labor force (thousands)	29,600	29,930	30,870
Unemployment rate (avg pct)	3.6	3.6	3.6
Money and Prices			
Money supply (M1) 3/	158,524	177,270	196,180
Comm'l interest rates (pct)	15.0	15.0	15.0
Savings rate (pct of GNP)	14.1	13.3	12.3
Investment rate (pct of GNP)	16.1	17.6	17.1
Consumer price index (1975 = 76100)	3.6	6.3	11.0
Wholesale price index (1975 = 76100)	5.0	10.0	9.5
Exchange rate			
Official	17.18	17.60	19.22
Parallel (est)	18.15	18.65	20.20
Balance of Payments and Trade			
Total exports FOB	3,498	4,362	4,594
Exports to U.S.	374	488	538
Total imports CIF	5,792	6,919	7,204
Imports from U.S.	593	709	1,111
Aid from U.S. (U.S. FY, includes military	638	610	575
Aid from other countries (excludes military)	1,398	1,824	2,402
External public debt	11,761	13,901	14,000
Debt service payments (non-mil)	1,101	1,117	1,173
Foreign exchange reserves	865	438	453
Balance of payments	-60	-205	-98

1/ Pakistan's fiscal year (PFY) is July 1 - June 30.
2/ Based on current factor cost.
3/ 1987-88 figure is July-March only.

PAKISTAN

1. General Policy Framework

Pakistan has experienced historically uneven development: rapid industrial growth in the 1960s was followed by stagnation under the socialist policies of former Prime Minister Zulfiquar A. Bhutto. Since 1977, real gross domestic product (GDP) growth has averaged about 6.7 percent per year. The share of agriculture in GDP declined from 53 percent in 1950 to 24 percent in Pakistan fiscal year (PFY) 1989. Conversely, manufacturing and construction now contribute over 20 percent of GDP, compared to 8 percent in 1950.

Federal budget deficits are a source of continued concern, as large public borrowing has fueled inflation. For the past several years, the Central Bank, which dictates the total amount of credit in the economy, has pursued a relatively tight monetary policy. Commercial banks must adhere to a strict overall credit ceiling, as well as to limits on loans to individual sectors. Monetary expansion is generally prudent; the money supply growth rate does not exceed the nominal GDP growth rate by more than 2 to 3 percent. The official average annual inflation rate had held relatively stable at 3 to 4 in previous years. Over the past two years, however, inflation has gained momentum, reaching an estimated 11 percent by the end of 1989. The wholesale price index was up approximately 9.5 percent, slightly lower than the 10.3 percent increase in 1988, suggesting that inflationary pressures may be subsiding in PFY 1989-90.

The budget presented by the Bhutto Government in June 1989 contains a number of measures--including expanded sales tax coverage and improved tax administration procedures--to increase revenues. Other steps, such as capping federal reimbursement for provincial deficits, should help reduce the deficit, which the Government projects will fall from 7.1 to 6.0 percent of GDP during PFY 1990.

The Bhutto Government is revising the Seventh Five Year Plan covering PFY 1989 through 1994 to redirect more resources to the long-neglected areas of health care and education. This plan, and the annual development program that flows from it are key elements in setting priorities for the Government's development expenditures and policy. The economy continues to be dominated by agriculture and agro-based industries, and agriculture employs 50 percent of the labor force in Pakistan, earns (directly or indirectly) approximately 70 percent of export revenues, and contributes 23 percent to GDP.

Industry contributes approximately 20 percent to GDP and has become increasingly important to the country's development and export potential. The public sector share in Pakistani industry has diminished over recent years, and in PFY1986 accounted for under 20 percent of total fixed capital formation. Substantial imports of raw materials, intermediate inputs, and machinery support Pakistan's industrial growth. Currently, principal U.S. exports to Pakistan are soybean oil, wheat, tallow, machinery, transportation equipment (including aircraft and parts), chemicals, and phosphatic fertilizer.

PAKISTAN

4. Debt Management Policies

Pakistan has consistently followed a conservative approach to external borrowing. Total external debt at the end of June 1989 consisted of the following (billions of dollars):

Total external debt		19.5
Long-term publicly guaranteed	14.0	
IMF credits	0.7	
Short-term public	0.8	
Medium- and long-term private	2.5	
Short-term private	1.3	

Pakistan's debt service ratio was approximately 30 percent of merchandise export earnings in 1989.

Pakistan has a sound credit rating and has consistently met its debt service obligations on time. It experienced some difficulty qualifying for medium-term credit during the summer and fall of 1988 because of uncertainties raised by political events. The election of the Bhutto Government in November 1988 and the conclusion of an agreement with the IMF has eased the problem. Pakistan completed an agreement refinancing its foreign military sales (FMS) debt to the U.S. in early 1989.

Pakistan's approach to foreign borrowing has an effect on U.S. imports. When borrowing is necessary, the Government is often more sensitive to credit terms than to price. This often puts Japan in an advantageous position because of the concessional financing offered under Japan's aid programs. This also tends to offset the advantage U.S. imports would otherwise have because of the appreciation of the yen vis-a-vis the dollar.

5. Significant Barriers to U.S. Exports and Investment

Restrictions are implemented through Pakistan's import regime, including license requirements for all imports. Prior to 1986 Pakistan had a highly restrictive import policy which closely regulated the number and amount of permitted imports. As a part of the IMF/World Bank structural adjustment program, Pakistan began to reform its import regime. All products not on the prohibited or restricted lists may be imported with a valid license. Import licenses are valid for one year after issue and may be extended or revalidated within 15 days of the expiration of the letter of credit (LC). If an LC is not opened within 60 days of the issuance of the import license, the license becomes invalid. The validity period of licenses for essential food items was reduced from one year to three months and the period for opening a letter of credit from 60 days to 30 days. Processed food products will be allowed entry if the packages are inscribed with the date of manufacture and date of expiration.

Services barriers affect the banking industry, insurance, maritime transportation, audio and visual works, and air transportation. Portions of major service industries in

PAKISTAN

2. Exchange Rate Policies

Pakistan follows an exchange rate policy of a managed float whereby the Central Bank regularly adjusts the value of the rupee against major international currencies. Since 1982 the rupee has depreciated by 88.4 percent against the U.S. dollar. The rupee-dollar depreciation in PFY 1988-89 was slightly over nine percent, making all imports more costly. U.S. imports should be more cost-competitive than products of our principal competitors, the Japanese, however, because of the current yen/dollar relationship. With the relative depreciation of the dollar against the Japanese yen over the past two years, more aggressive marketing by U.S. exporters could pay good dividends.

3. Structural Policies

While the Government retains considerable powers to impose price controls on the economy, in recent years it has largely moved away from this practice. Controls remain on drugs and pharmaceuticals, presenting a major ongoing problem to foreign drug companies. In other areas, the Government no longer fixes prices, but it will intervene in the market with government stocks if prices on essential commodities such as wheat, sugar, and edible oil vary greatly from the government-fixed support price. This is especially true for wheat and vegetable oil (ghee) where the artificially low prices stimulate consumption and also some smuggling across the border to India and Afghanistan. Pakistan imports U.S. wheat during years when domestic output is low. Eighty percent of the vegetable oil consumed in Pakistan is imported, the government policy taxing low-priced palm oil imports effectively sustains imports of more expensive U.S. soybean oil. The soybean oil is provided under PL-480 and Commodity Credit Corporation (CCC) credit programs.

Because Pakistan's system of taxation is very inefficient, the Government relies on indirect taxes for the great majority of its revenues. The unweighted average tariffs for FY1986-87 were 95 percent on consumer goods, 54 percent on capital goods, 56 percent on intermediate goods and 95 percent on textiles. Average import duty collection was 34 percent of total import value in FY1986-87. The rate structure is determined by a number of socio-economic factors. In general, luxury goods and less essential consumer items are assessed higher rates while machinery and capital goods are charged an average of 40 percent. Essential capital goods, food and raw materials are duty free. A price equalization surcharge of five percent of cost, insurance, and freight (CIF) and an educational surcharge of five percent are levied on all imports. When these surcharges and sales tax are added, the duty rates become even higher, reaching prohibitive levels in many instances. The Government is committed to import liberalization and has reduced tariffs across the board in each of the last two budgets. The number of items on prohibited and restricted lists have been reduced, further liberalizing imports.

are nationalized and run by the Government. The National Insurance Company is controlled by a government-appointed managing director, chairman, and a majority of the board of directors. Foreign insurance firms are required to place a portion of any service transaction with or through a local private firm or government facility. All imports must be insured in the domestic insurance market except shipments financed by the U.S. Agency for International Development. The Government refuses to license any new foreign insurance firms. Foreign banks are limited to three branches, and the import of foreign films is regulated by a quasi-governmental monopoly.

Although high-level Pakistani Government officials encourage foreign direct investment, foreign investors must overcome a number of bureaucratic hurdles. The Government must approve foreign investments of over 49 percent equity and favors basic manufacturing projects involving advanced technology and oriented toward export markets. The Government encourages industries to locate in underdeveloped areas. Investment proposals having a high local content and Pakistani equity participation are favored by the Government.

The Government, including the large, autonomous organizations and numerous government-controlled corporations, is the country's largest importer. Import requirements are handled through bids. Orders are generally placed with the lowest bidder. Most government agencies, autonomous organizations, and public sector corporations meet their import requirements directly through tenders, which are publicly announced and/or issued to registered suppliers. Some of the major government agencies that purchase their requirements directly include: Ministry of Defense through the Directorates of Procurement for Army, Navy, and Air Force; Department of Telephone and Telegraph; Water and Power Development Authority; Oil and Gas Development Corporation; Pakistan International Airlines; Pakistan Railways; Karachi Shipyard and Engineering Works; Pakistan Broadcasting Corporation; and Pakistan Television Corporation.

The provincial governments purchase equipment through their respective Directorates of Industry located in the provincial capitals. This system presents U.S. exporters with potentially large sales. On the other hand, they must deal with copious red tape and with a powerful purchaser who is in a position to whipsaw competing suppliers. Government entities must favor public sector corporations when they procure services such as banking and insurance.

Customs procedures are not unusually burdensome. Some importers have had difficulty getting customs officers to honor waivers that have been negotiated with other government entities.

PAKISTAN

6. Export Subsidies Policies

Pakistan seeks to encourage exports through import duty/sales tax rebates, income tax rebates, and concessional export financing. A portion of the import duties and sales taxes paid on raw materials needed for production of exports are refunded upon the export of the manufactured goods. For certain export items, the rates of rebate have been standardized and expanded. In other instances, rebates are determined on the basis of documentation furnished by the exporters. A rebate of 55 percent is also available on the tax on income from exports of goods manufactured in Pakistan. In addition, under the export financing schemes in place since May 1985, commercial banks provide concessional export financing to exporters.

7. Protection of U.S. Intellectual Property

Pakistan is a member of the World Intellectual Property Organization and a party to the Berne Copyright and Universal Copyright Conventions. It is, however, not a member of the Paris Convention for the Protection of Industrial Property. The U.S.-Pakistan Treaty of Friendship and Commerce guarantees national and most-favored nation (MFN) treatment for patents, trademarks and industrial property rights.

Pakistan is one of the 17 countries cited for inadequate protection of intellectual property rights on the U.S. Trade Representative's Special 301 "Watch List" mandated by the 1988 Omnibus Trade and Competitiveness Act.

Pakistan is in the process of enacting new patent and copyright legislation. For the present, it does not appear to protect product patents in the chemical or pharmaceutical fields. U.S. pharmaceutical companies have complained that this complicates their efforts to pursue infringement allegations in local courts. Infringement can be shown only through complex technical and scientific presentations.

Trademark and copyright infringement also is an area of U.S. concern. U.S. book publishers have complained that, although Pakistan is a member of the Universal Copyright Convention, its copyright law enforcement is ineffective and penalties for violation are extremely weak. Infringement penalties are significantly stiffened in the draft copyright legislation currently under consideration.

8. Worker Rights *

a. The Right of Association

The right of industrial workers to form trade unions is protected by the Industrial Relations Ordinance, but is subject to major restrictions in some employment areas. In practice, labor law places constraints on the formation of unions and their ability to function effectively. Little progress has been made in removing all general bans on trade union activity. Strikes are rare, and when they occur are usually illegal and short. Strikes are banned by law in export promotion zones (EPZ), although this has little impact since EPZ development is limited. Pakistani labor federations may affiliate with international labor organizations and an ILO office operates in Pakistan. Pakistan has been criticized by the ILO for not abiding by several ratified conventions.

b. The Right to Organize and Bargain Collectively

Although workers can form associations and elect representatives to act as collective bargaining agents, current laws place limitations on their extent and effectiveness. The largest segment of the work force, which is employed in rural agriculture, may not organize and bargain collectively. Under the Essential Services (Maintenance) Act of 1952, union activities are restricted in sectors associated with "the administration of the state" such as education, public utilities, and nationalized banks. Unions complain that the hiring of contract labor has undercut union strength by employing workers who do not receive benefits and who are not covered by collective bargaining agreements. Legislation has been proposed to regularize contract labor and to extend rights to contract workers, but no new laws have been passed.

c. Prohibition of Forced or Compulsory labor

Forced labor is prohibited by Pakistani law. There is no evidence that slavery or bonded labor has received official sanction. However, illegal cases of bonded labor appear to be common. Some progress has been made in the courts toward abolishing bonded labor but it continues to be widespread.

d. Minimum Age for the Employment of Children

Laws exist limiting the employment of children in some industries to those over 14 or 15, but none are effectively enforced. Child labor is known throughout Pakistan primarily in family farming or small business, but the abusive employment of children in non-family business is widespread. The employment of children is occasionally linked with stories of bonded labor and child prostitution.

e. Acceptable Conditions of Work

Labor regulations stipulating a legal minimum wage and containing worker protection and welfare provisions are often not enforced and apply to a minority of the labor force. Specifically, workers in agriculture, small factories with fewer than ten employees, and small contract groups of under ten employees are not covered. Worker health and safety conditions are generally poor by Western standards, and little is being done to improve them.

f. Rights in Sectors with U.S. Investment

Significant investments by U.S. companies have occurred in the petroleum, food and related products, and chemicals and related products sectors. Although U.S. consumer goods and electronics are represented in the wholesale trade sector, they are usually marketed under agency agreements which involve little U.S. capital investment.

In general, multinationals seem to do better than most employers in fulfilling their legal obligations and dealing responsibly with unions. The industrial establishments built with U.S. investments are all large enough to be subject to the full provisions of Pakistani law for worker protections and entitlements. There are no known accusations of worker rights abuses against U.S. firms.

The only significant area of U.S. investment where worker rights are legally restricted is in the petroleum sector. The oil and gas industry has been declared subject to the Essential Services (Maintenance) Act--a finding renewed at six-month intervals--which bans strikes and collective bargaining, holds up the threat of legal sanctions against worker misconduct, theoretically limits a worker's right to change employment, and gives little recourse to a fired worker.

In practice restrictions on changing employment have apparently been used to protect the federal government's Oil and Gas Development Corporation (OGDC) from losing its trained manpower to private companies offering more generous benefits. Reportedly, employees who quit OGDC must generally wait for two years before seeking other employment in the petroleum industry in Pakistan. Many OGDC workers, however, have found employment abroad.

PAKISTAN

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category		Amount
Petroleum		146
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

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* Section 8 is an abridged version of Section 6 of the Pakistan country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

SAUDI ARABIA

Key Economic Indicators

(Billions of Saudi riyals (SR) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production and Employment			
GDP	275.0	282.0	290.0
Real GDP growth (pct)	-1.4	7.1	2.0
GDP by sector (pct)			
Oil sector	26.4	24.9	27.0
Non-oil sector	73.6	75.1	73.0
Real per capita income (1000s of Saudi riyals)	27.2	26.9	26.6
Size of labor force (mils)	4.4	4.5	4.6
Unemployment rate	n/a	n/a	n/a
Money and Prices			
Money supply (M1)	92.0	93.7	95.0
Commercial interest rates (pct)	6.5	8.3	8.0
Savings (pct of GDP)	6.0	13.4	15.0
Investment (pct of GDP)	19.0	22.4	24.0
Consumer price index (1983=100)	90.9	91.8	93.5
Wholesale price index (1985=100)	110.4	125.2	135.0
Exchange rate (SR/$)	3.75	3.75	3.75
Balance of Payments and Trade (bils $)			
Total exports FOB	23.2	24.3	28.0
Exports to U.S.	4.9	5.6	6.2
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External public debt	0	0	0
Annual debt service	0	0	0
Gold and forex reserves	22.9	20.8	20.8
Balance of payments	-4.3	-7.7	-6.0

1. General Policy Framework

Saudi Arabia has an open economy with a dominant government sector whose regulations strongly favor Saudi citizens and the citizens of neighboring Gulf Cooperation Council (GCC) states. This bias is pervasive and reflected in virtually all government policies, including those affecting taxation, credit, investment, procurement, trade and labor. At the same time, other government objectives, including national development, defense and the technological advancement of the economy, ensure that this bias never rises to the point of precluding, or even seriously threatening, foreign participation in the economy.

SAUDI ARABIA

Fiscal Policy: The overall scale of Saudi Government financial operations have been cut back sharply over the past six years as oil revenues have declined and a number of major infrastructure projects were completed. Nevertheless, government financial operations remain the dominant factor in the economy. They account for more than 50 percent of GDP, largely determine the level of non-oil GDP growth, and influence investment and resource allocation decisions throughout the economy. Government revenues are now much lower (by approximately 65 percent) than they were during the early 1980s, but remain dominated by oil receipts and income from government offshore investments. Only 20 percent of government revenues is presently derived from domestic taxes and fees. Finally, the budget has remained in deficit over the past five years despite sharp spending cuts, particularly in public investment. Budget deficits since fiscal year 1983/84 have ranged between 13 and 26 percent of GDP. Until 1988, the Government covered these deficits by drawing down its foreign assets (by more than $60 billion between 1981 and 1989); since then most of the deficit has been financed through selling domestic bonds.

Monetary Policy: The Saudi Arabian Monetary Agency (SAMA) oversees a financial sector of 12 commercial banks, 5 specialized credit institutions and a variety of non-bank financial institutions. SAMA also chairs a committee on bad debts and has used its influence to help banks and debtors settle bad debts. The Agency has the statutory authority to set legal reserve requirements, impose limits on total loans, and regulate the minimum ratio of domestic assets to total assets in each bank. However, it has not as yet applied these powers materially to affect the volume or distribution of bank credit in the economy. SAMA has introduced two new financial instruments over the past three years--bank deposit security accounts and Saudi Arabian development bonds--but has not attempted to use either to adjust domestic liquidity or short-term interest rates through open market operations. Rather, it has tended to allow money supply growth to be dictated by the balance on government fiscal operations and the balance-of-payments out-turn. Over the past five years, this has led to relatively slow growth in the money supply and very subdued levels of inflation.

Also important to the distribution of credit has been the operation of the specialized credit institutions. Initially funded by government appropriations, these institutions channel interest-free government funds to Saudi public and private sector investors. There are five such agencies:

- the Real Estate Development Fund, which was established to finance Saudi real estate ventures, both personal and commercial;

- the Saudi Industrial Development Fund, which provides credit to the Saudi private sector for industrial investments;

- the Public Investment Fund, which has financed the largest public and public/private joint venture projects;

- the Saudi Arabian Agricultural Bank, which lends to Saudi agricultural interests; and

- the Saudi Credit Bank, which grants small scale loans for periods up to five years.

Although private commercial bank lending is rising in Saudi Arabia, these government institutions continue to dominate medium and long-term lending. Their outstanding loans are triple those of the commercial banks, and while budgetary transfers to them have recently been limited, they remain active by re-lending funds from previously repaid loans.

2. Exchange Rate Policies

There are virtually no exchange restrictions in Saudi Arabia beyond a prohibition against using the currencies of Israel and South Africa. The Saudi riyal (SR) is officially pegged to the SDR at a rate of SR 4.28225 and, in principle, margins not exceeding 7.25 percent are allowed around the peg. However, these margins were suspended in 1981. Since then SAMA has ignored its SDR peg while it maintains a central rate against the dollar (SR 3.745/$1.00), which has not changed since 1986. There are no controls on receipts or payments for current transactions by residents or non-residents. Nor are there any significant restrictions on capital movements, beyond a requirement that foreign direct investments be licensed by the Foreign Capital Investment Committee. The Committee is chaired by the Deputy Minister of Industry and has representatives from the Commerce, Finance, Agriculture, Planning and Petroleum Ministries. Gold may be freely bought and sold in Saudi Arabia, with the exception that imports of 14-karat or less fine gold are prohibited.

3. Structural Policies

Pricing Policies: The Saudi Government has traditionally taken a laissez faire approach to pricing, with the exception of a number of basic utility, energy and farm products. Water and electricity are both heavily subsidized, with electricity being sold to industrial consumers at a rate of 1.3 cents per kilowatt-hour. Water prices vary progressively with consumption, but run no higher than $1.07 per cubic meter. This compares with production costs as high as $12.00 per cubic meter at the margin for desalinated water. In addition, petroleum products are sold at cost, leaving domestic prices well below world market levels (2-3 cents per liter for diesel fuel and heavy fuel oil sold to industry). Similarly, natural gas used in petrochemical industries at Jubail and Yanbu is priced to cover collection costs (50 cents per 1000 cubic foot) in the absence of any alternative market.

In agriculture, government procurement prices for wheat are substantially above world market levels (presently $400 to $534 per ton). As a result, wheat production has risen to four times domestic demand and Saudi Arabia exported roughly two million tons of wheat in 1988. The Government recently reduced the wheat subsidy, but most local experts believe that it will be many years before it is completely eliminated. Tax Policies: Saudi taxes take three major forms--income taxes, various fees and licenses, and customs tariffs. The income tax is payable only by self-employed expatriates and foreign companies. The tax applied to self-employed expatriates ranges from 5 percent for a monthly income between SR 6,000-10,000 to a maximum rate of 30 percent for a monthly income in excess of SR 30,000. Taxes on business income apply only to foreign companies and to non-Saudi shareholders in Saudi companies; its rate rises from 25 percent for profits of up to SR100,000 to a maximum rate of 45 percent for a net profit in excess of SR1 million.

Saudi and other GCC citizens are subject to the "zakat," an Islamic tax on income, which is levied at a flat rate of 2.5 percent. The zakat is voluntary for individuals, but license and registration fees are widely applied and can reach very high levels. For example, there is an initial work permit fee for expatriate workers of SR1,000 which rises to SR2,000 and SR3,000 for subsequent renewals. Import tariffs are levied at a general minimum rate of 12 percent ad valorem with exceptions for essential commodities; there is a maximum 20 percent tariff on imports competing with local products such as steel and cement which are deemed "infant industries."

There are substantial tax incentives for foreign investors. These include a 10-year tax holiday for approved agricultural and manufacturing projects with a minimum 25 percent Saudi participation. For approved projects in other sectors, such as contracting or the provision of other services, the tax holiday is five years. In addition, approved projects are eligible for exemptions on customs duties on required capital equipment and raw material imports.

Regulatory Policies: Saudi regulatory policies affect trade and investment in Saudi Arabia in three ways. The foreign capital investment code requires that foreign investments be for "development" projects in line with government priorities, that they produce some technology transfer, and that they involve a minimum 25 percent Saudi equity participation. The requirements can be waived, but generally are applied to direct new foreign investment toward relatively high technology projects judged to be beyond the scope of local entrepreneurs.

Moreover, Saudi Arabia and other GCC countries have adopted relatively uniform food health standards which can pose problems for U.S. exports. Food products must have detailed Arabic language labeling which includes production and expiration dates, product name, net weight, ingredients, manufacturer's name and country of origin. In addition, U.S. exporters have reported that the inconsistent application of these rules has created further problems.

Lastly, Saudi labor law requires that 75 percent of a firm's work force and 51 percent of its payroll be Saudi unless an exemption has been granted by the Ministry of Labor and Social Affairs. Potential investors are also required to show plans for recruiting and training Saudi employees and must document their manpower requirements if they hire overseas. In fact, regulations introduced in 1985 now require that the Ministry of Labor and Social Affairs certify that there are no qualified Saudis for a given job before firms are permitted to recruit overseas.

4. Debt Management Policies

Saudi Arabia is a substantial net creditor to world financial markets with net official financial assets of approximately $75 billion. Saudi commercial banks similarly hold net foreign assets totalling about $23 billion. Saudi Arabia has also been a major source of development assistance and has regularly providing aid equal to 2-3 percent of its gross domestic product, perhaps the highest such ratio in the world. Saudi Arabia has permanent seats on the boards of directors of the International Monetary Fund and the World Bank and has participated in funding several special facilities aimed at helping deficit countries, including the IMF's general agreements to borrow.

Domestically, the Saudi Government recently begun to borrow and has embarked on a multi-billion dollar domestic bond program since the summer of 1988. It also undertook a direct commercial borrowing of $660 million by the Public Investment Fund in 1989. However, there is market resistance to the terms and conditions of the lack of a secondary market. As a result, SAMA has been obliged to place the bulk of bonds sold in 1988 and 1989 ($16 billion out of a total of $20 billion sold) with official entities such as the Government's Pension Fund and the General Organization for Social Insurance.

5. Significant Barriers to U.S. Exports and Investment

Significant barriers to U.S. exports lie in several areas. While there are no import licensing requirements in Saudi Arabia, imports of selected products may be banned in the case of domestic overcapacity; at the moment, however, no such bans are in effect. There are also protective tariffs which can run as high as 20 percent in the case of industries such as cement and steel.

Saudi Arabia participates in the Arab boycott of Israel and bans products and investments from companies judged to contribute to Israel's economic or defense capabilities.

Government procurement regulations strongly favor Saudi and GCC nationals. Under a 1983 decree, foreign contractors must subcontract 30 percent of the value of the contract (including support services) to majority-owned Saudi firms. U.S. businessmen view this as the Government's most serious barrier to imports of U.S. engineering and construction services. In early 1987, Saudi Arabia also put in force new regulations giving priority in government purchasing programs to GCC products. These products now receive up to a 10 percent price preference over non-GCC products in all government contracts, including subcontracts awarded by foreign contractors.

The Government has taken steps to reserve certain services for government-owned companies. These include insurance services for government agencies and contractors, which are now reserved for the National Company for Cooperative Insurance, and air transport for government employees, which is reserved for Saudi Airlines under the "fly Saudia act."

Finally, standards and labeling regulations can present difficulties. Saudi Arabia and other GCC countries have adopted food health and labeling standards which can stymie U.S. exports. As noted above, food products must have detailed Arabic labeling. Moreover, U.S. exporters have complained about the lack of clarity in these regulations and inconsistencies in their application.

6. Export Subsidies Policies

Saudi Arabia has an extensive program of agricultural export subsidies, notably for wheat. Each year's entire wheat crop is now purchased by the government-owned Grain Silos and Flour Mills Organization at prices which range from $400 per ton (for large producers) to $534 per ton (for small producers). The largest proportion of this crop (four-fifths in 1988) is then re-exported at world market prices, with the government covering the cost of the Organization's losses.

In contrast, Saudi Arabia has no programs specifically targeted at supporting industrial exports, though many of its industrial incentive programs can be seen as indirectly supporting exports. The U.S. Department of Commerce imposed countervailing duties against Saudi Arabia in one case where special government support programs were judged to give a Saudi producer of steel rods an unfair pricing advantage. In this case, the major factor was the interest-free financing offered by specialized credit institutions. In addition, the Government offers new investors other incentives, including exemptions from duties on capital equipment and raw material inputs, income tax holidays for foreign joint venture partners, nominal rents on industrial property and training subsidies.

7. Protection of U.S. Intellectual Property

Saudi Arabia is a member of the World Intellectual Property Organization, but has not yet adhered to the Berne or Universal Copyright Conventions or to the Paris Convention for the Protection of Industrial Property. Therefore, owners of trademarks and copyrights in Saudi Arabia are dependent on

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Saudi laws and regulations for protection.

Saudi Arabia's trademark laws and regulations generally follow internationally accepted norms. They require registration of trademarks and permit registration of service and collective marks. In February 1988, the trademark law was amended to allow the Ministry of Commerce to initiate actions against trademark violators. In addition, anti-fraud regulations permit the ministry to penalize those who describe products deceptively as to their nature, type, kind, essential properties, origin, amount or weight. Enforcement of these regulations has improved in recent years, but still remains far short of what is required.

Saudi Arabia's patent law, which went into effect on May 18, 1989, sets out criteria for determining whether an invention is patentable. These are similar to those applied in the United States. The Saudi law prohibits the unlicensed use, sale or importation of a product made by a process protected by a patent in Saudi Arabia. At the same time, the law contains broad provisions to allow the Government to declare unilaterally that certain areas of technology are unpatentable. It also permits the compulsory licensing of patented products and processes, with or without compensation to the patent holder, if the patent holder does not make use of the invention in Saudi Arabia within a specified time period, or the Government chooses to issue such a license for public policy reasons. Since the new Saudi Patent Administration in the King Abdul Aziz City for Science and Technology (KACST) has just been organized, it will be some time before we can judge how effectively the new patent law will be enforced.

In January 1990, King Fahd signed a new copyright law for Saudi Arabia. Reportedly, this law will provide protection for the life of an author and fifty years thereafter. It will also protect technologically-advanced forms of authorship such as computer software and databases. Foreign works will be protected if they are first published in Saudi Arabia, or originate in a country with which Saudi Arabia has established bilateral copyright relations. Enforcement will be by the Ministry of Information and penalties will include fines and/or the seizure and destruction of infringing articles.

Saudi Arabia was one of seven countries included in May 1989 by the U.S. Trade Representative on the "Priority Watch List" mandated by the 1988 Omnibus Trade and Competitiveness Act but was downgraded to the "Watch List" in November because of significant progress made in protecting intellectual property rights.

8. Worker Rights *

a. The Right of Association

Government decrees prohibit the formation of labor unions and strike activity.

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b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is not recognized in Saudi Arabia.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is generally prohibited in Saudi Arabia. However, since employers exercise control over the movements of foreigners in their employ, situations that could be described as forced labor can occur, especially in remote areas, where workers are unable to leave their place of work. In such cases, most employees can bring suit against their employers in the labor courts. However, employees engaged in private homes, or other small, wholly family-owned and operated businesses are not covered by the labor regulations enforced by the labor courts.

d. Minimum Age for Employment of Children

Children under 18 and women may not be employed in hazardous or unhealthy industries, such as mining or industries employing power-operated machinery. In other cases, the labor law provides for a minimum age of 13, which may be waived by the Ministry of Labor with the consent of the juvenile's guardian. In general, enforcement is effective, and child labor does not appear to be a significant problem.

e. Acceptable Conditions of Work

There is currently no legal minimum wage in Saudi Arabia, although labor law provides that minimum wages may be set by the Council of Ministers on the recommendation of the Minister of Labor. Saudi labor law does establish a maximum 48-hour workweek at regular pay and allows employers to require up to 12 additional hours of overtime at time-and-a-half.

Saudi labor law requires employers to protect most workers from job-related hazards and disease, though employees engaged in private homes or small family businesses are not covered by these regulations. In addition, some foreign workers, particularly those in unskilled positions, have been subjected to abuse due to their ignorance of the Labor Code, inability to understand Arabic, lack of written contracts, or fear of retribution from their employers. In most cases, such problems can be settled in labor courts, which have the reputation of being reasonably fair, if at times slow. However, not all employees; e.g., domestic workers, fall within the jurisdiction of these courts. Moreover, labor courts have no compulsory enforcement powers.

Saudi Arabia has a generous social security program. Most foreign workers formerly were eligible to participate in this program on the same basis as Saudis, but were excluded from participation in March 1987. Saudi Arabia is now refunding all previous contributions by foreign laborers to these programs, with interest.

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f. Rights in Sectors with U.S. Investment

Major U.S. companies operating in sectors such as oil, chemicals or financial services seek to be known as good corporate citizens and, therefore, adhere strictly to Saudi labor law, including the ban on union activity and strikes. There is no collective bargaining. Required overtime is compensated, normally at time-and-a-half rates. Although 13 is the minimum work age in Saudi Arabia, U.S. firms generally recruit intermediate (16) or high school (18) graduates.

Conditions of work at major U.S. firms are generally as good or better than elsewhere in the Saudi economy. Overall compensation tends to make employment in U.S. firms very attractive. Major U.S. firms generally offer very competitive salaries, medical insurance, generous termination benefits and, in some cases, housing and transportation allowances.

Safety and health standards in major U.S. firms in Saudi Arabia compare well with standards anywhere in the world. According to U.S. managers, accident rates are as low or lower than rates elsewhere in the world.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		837
Total Manufacturing		139
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	40	
Machinery, except Electrical	(*)	
Electric & Electronic Equipment	6	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1989, Vol. 69, No. 8, Table 13

* Section 8 is an abridged version of Section 6 of the Saudi Arabia country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

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Key Economic Indicators

(Millions of Syrian pounds (Sp) unless otherwise noted)

	1987	1988	1989
Income, Production, and Employment			
GDP (1985 prices)	74,605	n/a	n/a
Agriculture (1980 prices)	10,763	n/a	n/a
Real GDP growth (pct)	-9.3	n/a	n/a
GDP per capita (1980 prices)	4,775	n/a	n/a
Size of labor force	n/a	n/a	n/a
Unemployment rate	n/a	n/a	n/a
Money and Prices			
Money supply (Ml) current prices)	67,242	n/a	n/a
Commercial interest rate 1/			
Savings rates 1/			
Investment rate 1/			
CPI Damascus (1970 = 100)	1,139	n/a	n/a
(1980 = 100)	336	n/a	n/a
Exchange rate (Syrian pounds/$)			
Official	3.925	11.20	11.20
Promotional	23.29	20.25	20.25
Free market	25 - 27	30 - 50	40 - 45
Balance of Payments and Trade 2/			
Total exports	5,312	15,093	n/a
Exports to U.S. (mils $)	66	37	n/a
Total imports CIF	27,915	n/a	n/a
Imports from U.S. (mils $)	93	86	n/a
Aid from U.S.	n/a	n/a	n/a
Aid from other countries 3/	n/a	n/a	n/a
External (non-military) public debt (est)	13,443	n/a	n/a
Annual debt service (est) 4/	1,481	n/a	n/a
Forex reserves (est gross convertible-excludes gold)	403	n/a	n/a
Gold holdings (million fine troy oz)	.833	.833	n/a
Balance of payments	-699	n/a	n/a

1/ All banks in Syria are nationalized and interest rates are set by law, ranging from 2 percent for financing of the export and storage of barley to 9 percent for certain private sector loans. Savings rates range from 2 percent on public sector "current accounts and sight deposits" to 9 percent on "other investment bonds." Most rates have not changed in 20 years.
2/ Using exchange rate for the year noted, i.e., 3.95 in 1987.
3/ Estimate using 3.95 Syrian pounds/$1.00 is Syrian pounds 2,133 to 2,520 in aid for 1987.
4/ Not known if due or paid.

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Sources: All statistics except those for the free market exchange rate, aid, annual debt service, gold and foreign exchange reserves and the balance-of-payments are taken from the official Syrian statistical abstract or from official foreign trade statistics. The balance are Embassy estimates based on a variety of sources. We do not consider any of the statistics to be totally reliable and are aware that there may be discrepancies. These result in part from the use of different exchange rates (there were as many as six in existence up until 1987) in different periods.

1. General Policy Framework

Syria has a highly centralized socialist economy, with a small but potentially vigorous private sector. Virtually all large industry, including the banking and insurance sectors, is nationalized. The overriding barrier to U.S. exports to Syria is a severe foreign exchange shortage, although various sanctions imposed against Syria pose additional constraints. Reforms enacted in recent years permit the private sector to retain 75 percent of export earnings to finance imports. No letters of credit have been issued to private sector importers since 1983. Most major imports are made by the central government and availability of financing is often the governing factor in supplier selection.

Trade controls were first imposed by the United States in 1979 as a response to Syria's involvement with terrorism. They were expanded in 1986 following Syria's implication in the attempted bombing of an Israeli airliner at London Heathrow Airport. Among the affected items are aircraft, aircraft parts, and computers of U.S. origin or containing U.S.-origin components and technologies. The Syrians have sought alternate suppliers of these products. Under the 1986 sanctions, Syria is ineligible for concessional financing of U.S. wheat exports, thus rendering U.S. wheat uncompetitive in the Syrian market. The Syrian-U.S. bilateral aviation agreement expired in 1987 and was not renewed.

Given that interest rates are fixed by law, that most rates have not changed in the last twenty years, and that there is no local securities market, most tools of monetary policy are not practicable in Syria. The national budget is the main fiscal policy tool. Efforts to reduce deficits, especially in 1989, have met with some success. Budgets, in real terms, have shown negative growth over the past several years, and many official prices were raised in an effort to reduce subsidies. No budget was published for 1989. Deficits are financed through borrowing from the Central Bank and by printing money. Basic foodstuffs are heavily subsidized, social services are free or for minimal charges, and the operating losses of many state industries are made up from the state Treasury. The expense of maintaining a large standing army plus the Syrian presence in Lebanon pushes government expenditures even higher.

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2. Exchange Rate Policies

The official exchange rate is pegged at 11.20 Syrian pounds (Sp)/$1.00. The "promotional rate" is Sp 20.25/$1.00 and the black market rate has fluctuated between Sp 40 and Sp 45/$1.00 between September 1988 and September 1989.

Exchange controls are strict. Syrian pounds may not be taken out of the country, although they may be imported physically. Almost all exchange transfers must be by letter of credit authorized by the Central Bank and the Prime Ministry. Private transfers prohibited. Private exporters may retain 75 percent of their export earnings in foreign exchange, with the balance in Syrian pounds. Prior to 1986, private exporters were not allowed to retain any earnings and had to apply to the Central Bank for all exchange authorizations. Syrian travelers may take Sp 1,000 per trip out of the country to non-contiguous countries. The impact on the price competitiveness of U.S. exports of these policies is minimal.

There is a substantial black market in Syria in currency, in the sale of locally-produced items at free market rather than controlled-price levels, and in active commodity smuggling from Lebanon.

3. Structural Policies

Syria has a highly centralized state socialist economy. Officially all imports, except those financed by private exporters from their export earnings, are controlled by the Government. Prices for virtually everything are controlled. Farmers may retain a portion of production but the balance must be sold to the Government at official procurement prices. Most industry is nationalized and a web of public sector companies exists to procure and distribute both agricultural and industrial output. Given the nature of this structure, it is difficult to assess its impact on U.S. or any other exports to Syria. With minor exceptions, the only legal entry into the Syrian market is via government tender. These are open and international with no restrictions, other than language pertaining to the Arab boycott of Israel. Awards are heavily influenced by factors such as willingness to accept bartered goods and credit facilities as well as by price. Given the exchange constraint, the extent to which the economic structure constitutes a trade barrier is unclear.

Tax policies have limited relevance to economic growth. There are no corporations in the sense that term is understood elsewhere. Any entity which might qualify is a public sector enterprise, whose profits go to the Government or whose losses are made up from the national treasury. Investment decisions are made by the State Planning Commission. Salaried employees pay a 14 percent wage tax; private enterpreneurs or partnerships and professionals are, in theory, subject to rates as high as 90 percent on their profits. Tax avoidance is common.

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The structure described above is that delineated by Syrian law and regulation. A substantial parallel economy exists outside the official structure. Goods ranging from luxuries to refrigerators and steel reinforcing bars for use in concrete construction flow across the border from Lebanon. In this market, U.S. exports compete on the basis of price and quality alone. Pricing is based on the free market rate for Syrian pounds. The Syrian Government has been unwilling or unable to exert effective control over this parallel economy, although there are periodic anti-corruption and anti-black market campaigns.

4. Debt Management Policies

Syria's disbursed public and publicly-guaranteed civilian debt is estimated at over $3 billion. Debt to the Soviet Union and Iran (both clearing account arrangements) is estimated to be at least $15 billion. Very little of this debt is held by the United States. Syria manages its debt by indefinite deferment and is badly in arrears on payments to the World Bank and on supplier credits and official development assistance to all creditors. Disbursements halted in March 1988 and projects have been cancelled. Tales of unpaid bills abound, and many suppliers have stopped responding to government tenders.

5. Significant Barriers to U.S. Exports and Investment

The main barrier to U.S. exports to Syria is Syria's very limited foreign exchange. Given more exchange resources other factors might constitute a barrier to U.S. exports. However, the exchange constraint renders these factors moot.

All items require import licenses. Banking and insurance are Syrian government monopolies. Legal services are handled by private lawyers, but one must be Syrian to practice law in Syria. Motion pictures are distributed by a government agency and subject to censorship. There is no stock exchange in Syria. Standards, testing, labeling, and certification are generally fairly administered. Most industry is nationalized and foreign investment is limited to 49 percent.

Joint ventures with the Syrian government are possible. The number and position of foreign employees in a company is usually negotiated when the contract or agreement is signed. Foreign personnel, particularly in managerial positions, represent the extent of equity participation. Land ownership laws are complex. In principle only Syrians may own land. The law permits Palestinians to own houses, although not agricultural land. Other exceptions have been made for foreign governments, institutions, and private individuals. Repatriation of capital is legally possible, yet may be in fact impossible due to the foreign exchange constraint. Government approval is required for all investments and any downstream services must be explicitly negotiated. Local sales are subject to price controls.

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Given the centralized structure, specific "buy national" laws do not exist. What the Government cannot produce for itself, it procures on the international market if it can afford it. Syria does not tender for goods it produces itself, even if the international price is lower. Syria prefers countertrade agreements.

Customs procedures are cumbersome and tedious. Delays result mostly from complex, formalistic regulations.

6. Export Subsidies Policies

Major exports are crude oil, refined products, raw cotton, cotton knits, fruits and vegetables. The Government markets most of Syria's exports so levels of subsidies are difficult to quantify.

7. Protection of U.S. Intellectual Property

Syria is a member of the Paris Convention for the Protection of Industrial Property, but has no trademark or copyright laws.

Syria has few major infringement problems due mainly to the unsophisticated industrial structure and limits on private industry. Local courts would likely give plaintiffs a fair hearing, but any financial award would be in Syrian pounds. Requests for payment in foreign exchange could be delayed indefinitely.

Most books printed in Syria are in Arabic and by Arab authors. The publishing industry is not well developed. Despite the lack of legal protection, major commercial infringement is not a known problem. There are, however, individual entrepreneurs who copy records, cassettes, and videos and sell them. These operations are not sanctioned by the Syrian Government. The amount of lost revenue is minimal and enforcement would be next to impossible.

The U.S. motion picture industry estimates the home video market in Syria is 100 percent pirate and is also concerned with unauthorized hotel video performances which are said to be common, however only a few hotels have internal video systems.

Given the lack of technical sophistication of Syrian industry and strict government control of communications and data processing, infringements on new technologies are not a problem.

8. Worker Rights *

a. The Right of Association

Syrian workers have and exercise the right to form and join a labor union or professional association, organized sectorally. The structure and rights of the unions are codified and guaranteed in law. The General Federation of Trade Unions (GFTU) is the central supervisory body for union activity. Nominally independent of both the Government and the ruling Ba'ath party, the GFTU leadership works closely with both to determine economic policies affecting workers and to represent the needs of the workers to the ruling authorities. By law at least 51 percent of the elected members of Syria's Parliament must be workers or peasants.

While strikes are not prohibited under Syrian law (except in the agricultural sector), in practice they are effectively discouraged. There were no reports of strikes in 1989.

The AFL-CIO filed a petition against Syrian labor practices under the auspices of GSP legislation in 1988. The Syrian Government provided relevant information regarding the situation in Syria as did the GFTU. In light of previous lack of sufficient knowledge, a decision was deferred and the case remains under review in 1989.

b. Right to Organize and Bargain Collectively

Representatives of the unions reportedly participate with the representatives of the respective employer and Ministry in establishing sectoral minimum wages. Moreover, in a country whose major industries are publicly held, workers make up the majority of each board of directors and always include union representation on those boards. The unions, under the law, can undertake negotiations for collective contracts with employers. They can sue and be represented in court.

c. Prohibition of Forced or Compulsory Labor

There have been no indications of forced or compulsory labor in Syria.

d. Minimum Age for Employment of Children

The minimum age in the predominant public sector is 14. While the minimum age varies more widely in the private sector, the absolute minimum is 12. Children are forbidden from working at night. The Labor Ministry is responsible for enforcing minimum ages, but the number of labor investigators is small, and violations may be extensive.

e. Acceptable Conditions of Work

The Government sets minimum and maximum wage limits in the public sector. Salaries are set on a monthly scale. The limits were set in 1985 and raised in 1987 and in 1989 when the President decreed a 25 percent increase. Two months later, following discussions among labor unions and employers, the Minister of Labor and Social Welfare also raised salaries for the private sector by 25 percent.

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Syrian labor law extensively regulates conditions of work, including the ability of an employer to fire an employee without due cause, an issue which the employee may take to a labor committee. Workers, once hired, cannot easily be fired. Conversely, a public sector worker must have the permission of the relevant Minister to resign. The workweek consists of six 6-hour days. Employees are guaranteed 15 days of paid leave per year during the first 5 years, rising to 30 days per year after age 50 or with 20 years employment. Employers must provide limited medical care.

Public laws mandate safety standards in all sectors although actual enforcement depends on managers and may therefore vary. The Ministry of Labor and Social Affairs has a small Office of Health and Safety which seeks to inspect and correct unhealthy conditions in the workplace.

f. Rights in Sectors with U.S. Investment

There is no direct U.S. investment, other than oil exploration and development, in Syria. U.S. firms are required to comply with Syrian labor law.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1989

* Section 8 is an abridged version of Section 6 of the Syria country report included in the Department of State's Country Reports on Human Rights Practices for 1989, submitted to the Congress January 31, 1990. For a comprehensive discussion of worker rights, please refer to that report.

TUNISIA

Key Economic Indicators

(Millions of Tunisian dinars (TD) unless otherwise noted)

	1987	1988	1989 (est)
Income, Production, and Employment (const prices)			
GDP (constant prices)	4526	4595	4735
GDP growth rate (pct chg)	5.8	1.5	3.0
GDP by sector			
Agriculture	670	510	526
Manufacturing industries	638	680	709
Non-manufacturing industries	687	688	698
Tourism	202	229	234
Services	1263	1379	1419
Real per capita income	595	589	607
Size of labor force (mils)	2.3	2.4	2.5
Official unemployment rate (pct)	14.3	15.0	15.8
Money and Prices			
Money supply	2025	2456	2745
Commercial interest rates (pct)	17.0	12.5	12.5
Savings rate (avg pct)	8.0	8.0	8.0
Investment rate 1/	- variable according to sector -		
Consumer price index (1983 = 100)	134.2	143.8	157.4
Wholesale price index (1970 = 100)	349.9	n/a	n/a
Exchange rate ($/TD)	1.20	1.16	1.05
Balance of Payments and Trade (current prices)			
Total exports FOB	1771	2055	2800
Exports to U.S.	32	21	n/a
Total imports CIF	2510	3167	4000
Imports from U.S.	149	224	127 2/
Aid from U.S.	102	88	101
External debt	4470	4975	5435
Debt service paid	860	923	1095
Gold reserves (m. troy oz.)	0.187	0.187	0.187
Forex reserves	340	733	n/a
Balance of payments	-96.5	-324.5	n/a

1/ Rates vary between 6.5 percent (manufacturing for export) to 12.75 percent (tourism).

2/ First three quarters of 1989 only.

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1. General Policy Framework

The Tunisian economy continued to move forward in 1989, although progress was slower than anticipated and GDP growth of 3 percent for the year was just over half early estimates. Tunisia is beginning to reap the long-term benefits of the structural readjustment policy put into effect after the balance of payments crisis three years ago. Massive food imports were necessary during 1989 following the most disastrous drought in memory. Despite the drought, Tunisia was able to meet all its financial commitments.

The domestic economy remains slow but export-oriented industries, especially textiles, have performed extremely well in 1989. Economically, the country is very closely linked to Europe, with 80 percent of all exports being sold there. Europe is also the source of about 85 percent of Tunisia's imports. The country enjoyed a second successive boom year for tourism in 1989The industry again brought in more than a billion dollars in hard currency, adequate to finance the trade deficit.

The official unemployment rate is around 16 percent, but the real rate is now approaching 25 percent. Tunisia must create nearly 50,000 new nonagricultural jobs each year if it is to keep unemployment in check. Investment remains well below requirements, despite very attractive legislation to encourage investment by both Tunisians and foreigners. Tunisia recently signed a tax treaty with the United States which will prevent double taxation on U.S. citizens and firms doing business in Tunisia. Negotiations for a U.S.-Tunisian bilateral investment treaty were concluded in early January 1990.

Early rainfall in the fall of 1989 augurs well for the drought-plagued economy. The Government has targeted an optimistic five percent growth for 1990, but with a good harvest and a good year for the tourism sector, this is not out of reach. The country's present political stability is a major plus. The regime led by President Ben Ali, who came to power in November 1987, remains popular. Nevertheless, many Tunisians, particularly in the poorer classes, are impatient to see the results of economic reforms introduced during the past two years. Wage rates have increased only minimally and inflation is running at nearly 10 percent. In public speeches, Ben Ali has repeatedly made it clear that economic prosperity for Tunisia depends also very much on Tunisians themselves and the effort they are willing to make if they want to improve their living conditions.

Tunisia's pattern of revenue resources is fairly stable from year to year. Total estimated fiscal receipts for 1989 are $2 billion, with a large majority ($1.57 billion or 78 percent) coming from indirect taxes. Just over 18 percent ($370 million) will be raised by direct taxes. Non-fiscal receipts will bring in $667 million and of these, nearly two-thirds (61 percent or $410 million) will be revenue from the petroleum industry. The government budget deficit in 1989 will be an estimated $400 million. To finance this, internal borrowing will raise $204 million, largely via government bonds ($83 million) and public loans ($85 million). Foreign borrowing of $617 million from the World Bank, the African Development Bank, and Japan will cover $357 million of economic debt and $65 million of military debt, leaving $195 million for financing the government deficit.

Tunisian government expenditure ($3.5 billion) is encumbered by the ever-increasing cost of the subsidy fund (Caisse General de Compensation) which subsidizes the price of basic foodstuffs (oil, sugar, tea, cereals) and holds agricultural production prices down. The fund has become a millstone round the neck of the Government and will cost about $420 million in 1989 compared with $289 million in 1988. The increase has been caused by dramatically increased food imports in 1989, necessary to meet shortages caused by the prolonged drought.

Investment incentives in Tunisia are geared to encouraging exports of manufactured goods, thus creating jobs and bringing in badly needed foreign exchange. Tunisian legislation on investment applies equally to domestic and foreign investors. Early laws were updated and codified in August 1987 into Law Number 87-51, the Industrial Investment Law. This applies to investments made by Tunisian or foreign promoters, whether resident or non-resident, or by any combination of the above, in manufacturing industries producing either totally or partially for export. The Law contains very generous fiscal and customs advantages. It provides nonresidents with a transfer guarantee for capital invested through the import of foreign convertible currency and income from the capital. Companies are considered nonresident when at least 66 percent of their capital is held by Tunisian or foreign nonresidents.

Similar legislation exists for investment in the agricultural sector, although Tunisian law still prohibits ownership of land by non-Tunisians (a special 40-year land lease system permits agricultural development by foreign companies.) New legislation for the tourism industry was due to be enacted before the end of 1989 and will probably grant further advantages to both Tunisian and foreign investors.

Reforms in Tunisia's banking regulations and an adaptation of policy on credit supply, investment, foreign exchange and foreign trade are going ahead. The reforms are part of the adjustment plan put into operation after the 1986 crisis and are designed to better economic performance through an improved monetary environment. The double goals are to stimulate the economy while keeping prices and inflation in check. Interest rates have been partially decontrolled and prior authorization from the Central Bank is no longer required for the granting of a loan by a commercial bank. Companies can invest excess liquid assets in the money market and withdraw funds at any time they are required. Use of adjusted discount rates to promote expansion in key sectors is reflected in the special 8 percent rate applicable to agriculture, small and medium-sized enterprises, and exports. For other sectors, the rate is up to 12 percent. Moves to revitalize the stock market include new regulations on the issue of debenture stocks and on operations by investment companies. A more active role by these financial institutions will help mobilize savings to finance investment.

Privatization of state enterprises in nonstrategic sectors has begun but would-be buyers for companies often carrying heavy liabilities are proving difficult to find.

2. Exchange Rate Policies

The long-term goal for Tunisia is convertibility of the dinar, and this is a key element of the overall plan for liberalization of the Tunisian economy. Suppression of tight exchange controls and complete elimination of obstacles to foreign financial institutions entering the local market will open the way for them to play a more effective role in financing growth of Tunisia's economy. The principal currencies quoted against the Tunisian dinar are the U.S. dollar, the deutschemark, and the French franc.

The exchange rate is determined via a controlled floating system, calculated on a basket of currencies. Daily rates are fixed for all major currencies. Rates against the U.S. dollar have varied considerably over the past 10 years as follows: in 1979, $1.00 equalled TD 0.404. By 1984 the rate had risen to TD 0.773 and for 1989 the average rate was about TD 0.935. The dinar was officially devalued by 10 percent in 1986, but total effective devaluation was in the region of 40 percent. Export and import of the Tunisian dinar are prohibited. Foreign payments are made in convertible currency via the Central Bank or through foreign-held accounts in the form of convertible Tunisian dinars.

Foreign accounts holding convertible dinars or convertible foreign currency may be held by nonresidents, Tunisian or otherwise. These accounts may be debited with any payment made in Tunisia, with transfers to other foreign accounts, with purchases of foreign convertible currency at the Central Bank, and with foreign transfers to nonresidents. Citibank, which has operated in Tunisia as an offshore bank for a number of years, began full onshore commercial operations in November 1989.

3. Structural Policies

The major structural adjustment plan for Tunisia, launched with World Bank and IMF backing after the severe balance of payments crisis in 1986, is helping Tunisia through continuing difficulties. The worst drought in many years decimated agricultural production between 1987-89, holding GDP growth to 1.5 percent in 1988. This was despite a boom year for the tourism industry which attracted 3.5 million visitors (compared with about 2 million in 1987.) After the opening of the border between Tunisia and Libya in March 1988, a total of 1.2 million Libyans travelled to Tunisia last year, compared with only 7,000 the year before, adding between $400-500 million to total tourism earnings. Overall totals for 1989 are expected slightly below 1988's record performance, when visitors brought in more than well over $1 billion in hard currency. Declining oil production levels have resulted in diminishing oil export earnings. Petroleum is now only the country's third-ranking hard currency earner, after tourism and textiles. Declining production and increasing domestic consumption mean that Tunisia is likely to be a net importer of petroleum products by 1992.

Import regulations were relaxed considerably in both 1988 and 1989 to stimulate economic expansion, fueled by the export of manufactured goods. The import of raw materials and semi-finished goods was liberalized. Enterprises which export more than 15 percent of their production may now import freely all the materials and equipment they require for production. Customs tariffs on imports of capital goods have been cut considerably, with the maximum customs tariff in effect being reduced to 43 percent from 220 percent. The maximum rate will be further reduced to 25 percent by 1991. Total taxes on imported goods have not, however, been slashed by such levels. A value-added tax (VAT) introduced in 1988 is payable on imported items at rates identical to those on locally produced goods. With long running negotiations now almost complete, Tunisia is expected to join the General Agreement on Tariffs and Trade (GATT) in 1990.

Price controls have been removed in several sectors of Tunisia's economy. Liberalization has already led to considerably higher price levels. The lack of competitiveness on the local market leaves little incentive for price cuts. Most major purchases by the Tunisian Government are made through international tender and lead time for bid submission is often prohibitively short. An interested U.S. firm may have to obtain documents, translate them from French, prepare a bid and translate it into French for submission in as little as one month. A local agent who can respond quickly to government tenders and maintain contacts with clients is a necessity.

Imports into Tunisia fall into three categories -- they can be imported freely, are subject to quotas, or are forbidden. Free imports, making up 65 percent of all tariff categories, do not need prior authorization and can be done upon presentation of an import certificate, valid for six months. Items subject to quotas need either an import license or can be imported as part of an annual authorization.

Annual quotas are granted to industries and organizations supplying basic necessities. Import licenses are valid for six months and are required for a very wide range of products. About 25 percent of all import is done by state organizations (50 percent of the total is energy-related purchases). The major importers are the Office of Commerce (sugar, coffee, and tea), Ellouhoum (meat) and the National

Oils Office (vegetable oils). Certain other products are imported by state entities (tobacco, alcoholic drinks, and pharmaceutical and medical products). Subsidies in key sectors (cereals, sugar, tea) have kept the consumer price index under control. The Government has a special subsidies fund for these basic products (Caisse Generale de Compensation) which currently costs the country over TD 400 million per year. A large share of these subsidized items are cereals. Tunisia imported $108 million worth from the United States in 1988, equal to 46 percent of total U.S. nonmilitary imports.

Modernization and reform of Tunisia's system of indirect taxes began in 1988, with the successful introduction of a value-added tax (VAT). This replaced a web of production and consumption taxes. Implementation of a revised corporate and personal income tax code is scheduled for early 1990. The only taxes having significant effect on U.S. exports to Tunisia are import tariffs. The current maximum tariff in operation is 43 percent and this will be reduced to a maximum of 25 percent on all except a few luxury goods by the end of the Seventh Development Plan (1987-91).

The tax reforms effective January 1, 1990 should stimulate investment not only by substantially lowering import duties, but also by easing import controls and streamlining investment and project approvals. In addition, tax reform measures include introduction of a general maximum 35 percent income tax rate for individuals and companies. Tunisia is in the final phase of negotiating accession to the GATT. A major requirement has been that all non-tariff barriers be removed. All taxes remaining on imports also apply to locally-produced goods and are not therefore considered to be tariff barriers. The only additional minor charge on imports is a very small customs user fee. The present rate is TD 2 per declaration.

Important tax breaks exist for both Tunisians and foreigners investing in industrial production and agriculture. The revised Industrial Investment Code grants greatly improved conditions for companies producing for export, particularly nonresident enterprises. Regulations effectively create free-zone conditions, duty-free imports, tax exemptions, and generous repatriation terms. Similar new regulations also apply to the agricultural sector (the ownership of land by foreigners remains prohibited but the new law contains a 40-year land leasing system to permit agricultural development by foreigners) and to the tourism sector. Special regulations encourage oil exploration by foreign companies (the largest area of U.S. investment) and the installation of offshore banks.

Production standards are not a major obstacle for foreign investors. The quality of goods manufactured solely for export, usually by foreign operated companies, is clearly superior to items produced for the local market. The Tunisian Office for Commercial Expansion (Office Tunisien de l'Expansion Commerciale - OFITEC) carries out control procedures on items for export (packing, quality, labeling). Sanitary and health controls are carried out on both exported and imported food items.

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4. Debt Management Policies

Tunisia has made considerable progress in managing its external debt since the balance of payments crisis in 1986 and subsequent devaluation of the dinar. The slash in the dinar's value was seen then as tough medicine for an acute problem. Nevertheless, the chronic problems of the country's economy still exist. Tunisia has long been tempted to spend more than it earns. With petroleum resources running out, the only answer is to manufacture and export. High levels of imports are required to fuel these manufacturing industries, which are often only barely competitive in price and quality. Further devaluation of the dinar could provide the additional boost Tunisian exports need but any advantage could be offset by soaring costs of imports for manufacturing production.

Tunisia's current account deficit at the end of 1989 was around $420 million. Goods exports for the 12-month period were about $2.95 billion, with imports up to an estimated $4.2 billion. One goal of the long-term adjustment plan is to reduce the current deficit from 8 percent of GDP in 1986 to 3 percent of GDP in 1991. Stringent measures cut the deficit back to only 1 percent in 1987 but it rose again to 2.3 percent in 1988 and was over 4 percent in 1989. Total foreign debt again exceeded $5 billion in 1989, rising to $5.7 billion or about 56 percent of current GNP. The Government aims to reduce this amount to 52 percent by 1991. Debt service cost Tunisia more than $1 billion in 1989, representing about 24 percent of current receipts. The debt service ratio peaked in 1987 at 27 percent. The target figure for 1991 is less than 22 percent. Tunisia has reorganized the structure of its foreign borrowing with some success. At the time of the balance-of-payments crisis, short-term loans accounted for 40 percent of these resources. Long-term debt now accounts for about 60 percent of the total. The Government has halted short-term borrowing and most of the remaining 40 percent is in medium-term loans.

5. Significant Barriers to U.S. Exports and Investment

The level of U.S. exports to Tunisia remains disappointingly low despite the lack of any real barriers to trade. Total Tunisian goods imports in 1988 were $3.12 billion with 24.7 percent of all imports coming from France. Italy was in second place (13.3 percent) and West Germany third (12.6 percent). Total imports from the United States were $224 million or about 7 percent of the total. For 1989 (7 months) total U.S. exports to Tunisia were $127 million, representing about 5 percent of total Tunisian imports for the period. About $42 million were cereal imports.

Tunisia's European trade partners have been quick to take advantage of the booming market for foreign imports. Virtually every major trading partner except the United States has linked aid programs to trade by offering packages consisting mainly of mixed credits for merchandise and service purchases. Tunisia has put a halt to borrowing at commercial rates and since U.S. companies cannot offer subsidized export credits they are therefore at a serious disadvantage vis-a-vis their European competitors.

Despite this, there are real possibilities for increasing nonagricultural U.S. exports in several areas. The United States is already well represented in mechanical and electronic equipment, military hardware, and raw materials for the fertilizer industry. Nevertheless, the problem of export credits remains a major barrier. The reopening of the Kairouan vehicles plant may help U.S. exports. Although on an offsets basis (i.e., compensating purchase of Tunisian manufactured mechanical parts), the Office du Commerce de le Tunisie (OCT) expects over a five-year period to import several hundred million dollars worth of trucks and tractors in kit form from bidders, including a U.S. manufacturer.

6. Export Subsidies Program

Tunisia has a wide range of export subsidy policies, including a special export promotion fund (FOPRODEX), which provides preferential financing and funding to improve the productivity and competitiveness of companies producing for export. Transport subsidies include 50 percent for air freight and 33 percent for sea freight. There is a program providing long-term financing for exports of capital goods and durable consumer goods.

The Export Promotion Centre (CEPEX), a government agency to promote exports, was created over 15 years ago but has only recently begun to play an active role and already successful part in Tunisia's export drive.

7. Protection of U.S. Intellectual Property

Tunisia is a party to the Berne and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property.

The Tunisian National Institute of Standardization and Industrial Property (INNORPI) processes and grants patents, trademarks, and registration of designs. There are no active cases of intellectual property rights disputes with Tunisia. However, unauthorized use of foreign trademarks (particularly for cheap copies of clothing and sporting goods) is frequent practice, as is the unauthorized copying of music and video cassettes.

8. Worker Rights *

a. The Right of Association

Tunisia's Constitution stipulates the right to organize a union and to strike. Less than 20 percent of the work force is unionized, primarily in the public sector. Civil service unions have the largest membership, but are rarely activist. The teachers' unions have about 90,000 members.

b. The Right to Organize and Bargain Collectively

Local unions engage in collective bargaining at the shop level without interference from the government. Export promotion zones as such do not exist. The Government does offer, however, fiscal incentives to firms producing for export. The labor law is the same for exporters and nonexporters.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor is prohibited by law and is not practiced. Nevertheless, the 1989 ILO Committee of Experts report called on the Government to fulfill its longstanding commitment to bring laws requiring work "rehabilitation" and compulsory work on economic and social development projects into conformity with Convention 29 on forced labor. Under Tunisian judicial practice, prison sentences may include confinement at forced labor.

d. Minimum Age for Employment of Children

Child labor is prohibited prior to age 15. The Ministry of Social Affairs oversees the provisions affecting child labor. However, young children often perform much of the agricultural work in rural areas and sell food and other items in urban areas.

e. Acceptable Conditions of Work

Tunisia's comprehensive Labor Code, enacted in 1956, prescribes a 48-hour workweek, holidays, overtime pay, vacations, and maternity and sick leave. It also sets minimum wages, spells out grievance procedures, establishes a worker/employer-funded social security fund for disability payments, medical coverage, and pensions. Unemployment insurance is not covered, but the Government has used these funds to compensate workers laid off in such industries as automobile assembly. Sectoral collective bargaining conventions frequently go beyond the benefits prescribed by the Code. The minimum legal wage in industry is $115 per month. For agricultural workers, the figure is slightly less.

f. Rights in Sectors with U.S. Investment

U.S. investment in Tunisia is not significant. It exists primarily in the petroleum sector which has both union and nonunion firms. Phosphate mining is a unionist stronghold, while agriculture has few organized workers, although it is one of the major employers. Many foreign firms, incorporated under special tax incentive privileges, often negotiate special agreements which prohibit their employees forming unions.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1988
(Millions of U.S. dollars)

Category	Amount	
Petroleum		23
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	2	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

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